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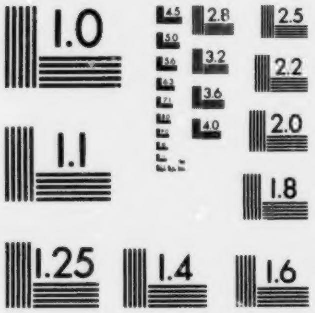

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A paper
prepared for the

Economic Council
of Canada

P.O. Box 527
Ottawa, Ontario
K1P 5V6

Un document
préparé pour le

Conseil économique
du Canada

C.P. 527
Ottawa (Ontario)
K1P 5V6

86-02761/

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DISCUSSION PAPER NO. 302

Controlling Public Enterprise in Europe

by M. E. Beesley
A. Likierman
S. Bloomfield

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ISSN-0225-8013

March 1986

RÉSUMÉ

LE CONTRÔLE DES ENTREPRISES D'ÉTAT EN EUROPE

Au départ de nos recherches, sur le contrôle étatique des entreprises en Europe, nous avons supposé que les gouvernements ont tendance à influencer le comportement des industries. Il en découle que les contrôles exercés ou proposés par les gouvernements comportent des interventions systématiques sur les divers modes de gestion possible. Nous démontrons que l'éventail des contrôles peut aller de celui qui s'exerce sur des réalités plus fondamentales, comme l'ampleur et la mobilisation des ressources, jusqu'à celui qui porte sur les opérations elles-mêmes. Nous nous sommes donnés pour tâche de définir les contrôles appliqués dans plusieurs pays, puis de les classifier. Travail assez long, mais que nous avons pu mener à terme; le chapitre 1 en présente les résultats. Ils nous paraissent bien probants, surtout pour l'échantillon d'industries de trois pays européens, de même que pour sept pays, y compris le Canada, dans le secteur des chemins de fer. Nous avons pu trouver une certaine confirmation de notre hypothèse selon laquelle l'entente est moins facile pour les moyens opérationnels que pour les contrôles plus importants touchant des problèmes de base, comme par exemple la division à établir entre les sphères publiques et privées, les personnes formant la haute direction et l'accès de l'entreprise aux sources de financement.

Une question se pose aussitôt : l'attention accordée aux contrôles opérationnels peut-elle modifier la performance, sans affecter le reste ? Plusieurs éléments nous permettent de répondre par la négative. Diverses formes particulières de contrôle opérationnel nous ont été proposées, et nous en examinons les plus importants au chapitre 2. Tous les systèmes, dans tous les pays en cause, sont passés par un cycle d'espoir, d'expérimentation, puis de désillusion. Par eux-mêmes, ils se sont avérés manifestement insuffisants. Au chapitre 3, nous passons à l'étude de contrôles multiples. Ceux-ci n'ont pu atteindre leurs objectifs originaux, en partie à cause des problèmes inhérents à la formulation et à l'acceptation générale d'objectifs valables, et en partie parce que le gouvernement concerné (le Royaume-Uni) les a ensuite mis de côté en modifiant sa structure de propriété ainsi que le jeu de la concurrence.

Nous avons examiné d'autres moyens d'améliorer les mécanismes de contrôle. Un système à contrôles multiples expérimenté au Royaume-Uni pour les industries nationalisées a été, par la suite, mis de côté par un nouveau gouvernement; de toutes façons, il posait d'énormes problèmes de cohérence. Le recours additionnel à des mesures de rendement non financières ont contribué tout au moins à clarifier la différence de traitement entre les diverses industries nationalisées, et à rendre moins probable l'application d'un système de contrôle à chacune des industries. Nous avons aussi fait une

comparaison d'industries similaires dans différents pays, afin de découvrir peut-être un jeu de mécanismes de contrôle supérieur, mais les résultats ont été plutôt maigres. Selon nos analyses, il semble que les systèmes de contrôle, dans les cas où le jeu des forces du marché s'impose de façon impérieuse, suivent les mouvements du marché, comme par exemple dans les activités de commerce international. Là où les entreprises ne sont pas soumises à de tels mécanismes, des systèmes de contrôle similaires peuvent donner lieu, dans la pratique, à des comportements assez différents.

Par surcroît, nous avons pu conclure que le transfert de mécanisme d'un pays à l'autre peut êre la source de problèmes sérieux. Ainsi, en tentant d'apprécier le 'système français' ou le 'système anglais' de contrôle des entreprises d'État, il importe de le replacer dans son contexte global. Les entités que recouvre l'expression "sociétés d'État" sont établies d'après toutes sortes de structures sociales, politiques et économiques particulières à chaque pays. En Italie, par exemple, l'intervention des partis politiques est considérée comme normale et légitime. En France, le recours marqué à la formule des entreprises publiques pour répondre à des besoins plus vastes du pays est accepté sans beaucoup de réserve. Dans d'autres pays, les contraintes politiques et économiques sont perçues autrement, et les raisons pour lesquelles certaines entreprises deviennent des sociétés d'État diffèrent d'un pays à l'autre.

ABSTRACT

CONTROLLING PUBLIC ENTERPRISE IN EUROPE

Our inquiries have proceeded from the view that governments wish to influence industries' behavior. This requires recognition that controls exercised or proposed by governments bear in a systematic way on managements' choices. The controls, we argued, can range from those affecting the more fundamental issues of scope and resource mobilization to those affecting operations. We set ourselves the task of defining controls in the several countries and classifying them accordingly. This proved possible, and time-consuming. The results are in Chapter 1, representing the finest evidence, namely for a cross section of industries for three European countries, and for seven countries including Canada with respect to railways. We found some support for our hypothesis of less agreement about operational devices than about the more important controls affecting basic matters such as the proper division between public and private spheres, the people constituting top management and its access to finance.

To the question that this prompted -- can performance be changed by attention to operational controls, without altering the rest? -- several conclusions emerged to suggest that the answer is "no." Particular forms of operational control have been advocated, some of the more prominent of which were reviewed in Chapter 2. All were subject to a cycle of hope, experience and disillusionment, irrespective of country. Clearly they were not adequate in themselves. We considered also a set of multiple controls in Chapter 3. These failed to serve their original purpose, partly because of the inherent problems of creating consistent and agree objectives, and partly because the government concerned (U.K.) indeed abandoned them in favour of altering its basic ownership and the competitive conditions they face.

We considered other ways of improving mechanisms. An attempted system of multiple controls for nationalized industries in the U.K. was, in effect, abandoned by an incoming government, but in any case posed formidable problems of consistency. The addition of non-financial measures of performance served, if anything, to sharpen the distinction in treatment between different nationalized industries by governments and to make a system of control for the application to each industry less feasible. A comparison of similar industries in different countries, to investigate whether we could reasonably infer a superior set of control mechanisms from the results, proved to be a necessarily limited exercise. So far as the evidence went, it supported the view that control systems follow market realities where these are imperative, as in internationally traded activity. Where enterprises are exempt from such processes, similar control systems can allow quite different behaviour in practice.

Apart from our reviews, we have concluded that there are fundamental problems in transferring mechanisms from one country to another. Thus, in discussing whether the "French system" or the "British system" of controlling state enterprises is suitable, a view needs to be taken about the system as a whole. Entities such as public corporations exist within a set of social, political and economic structures particular to their "home" country. In Italy, for example, intervention by political parties is regarded as normal and legitimate. In France, the deliberate use of public enterprises to serve the wider needs of the country is accepted with few reservations. Political and economic boundaries are drawn differently in other countries and the assumptions about why particular enterprises are in the public domain differ from one country to another.

Table of Contents

Page

1 CONTROLS AND THEIR USE 1

- Introduction 1
- The Control Mechanisms 2
- Cross-Country Comparisons 8
- A Seven Country Comparison: Railways 17
- Conclusions 25

2 COMMENTARIES ON STATE ENTERPRISE CONTROL PROBLEMS 29

- Introduction 29
- The "Contrat" System 30
- Models of Government - Public Enterprise Relations 35
- Proposals for Reform 42
- Conclusions 45

3 USING MULTIPLE PERFORMANCE CRITERIA AS MEANS OF CONTROL 49

- The Basis of the Mechanism 49
- Difficulties Inherent in the System 52
- What Happened to the Control Mechanism? 58
- Remedial Action 61
- Could the Mechanism have Succeeded? 63
- Conclusions 68

4 COMPARATIVE PERFORMANCE AND THE STRUCTURE OF CONTROL 71

- Introduction 71
- Internationally Trading State Enterprises 73
- Enterprises in Home Markets 79
- Conclusions 85

5 BIBLIOGRAPHICAL MATERIAL 87

6 IMPLICATIONS 93

APPENDIX 1 - Inside and Outside Views of Performance 101

APPENDIX 2 - Autos Matrix and the Oil Matrix 121

APPENDIX 3 - Bibliography 127

Notes 141

REFERENCES 142

1 CONTROLS AND THEIR USE

Introduction

A basic premise of our study, as our interim report said, is that the purpose of government control techniques is to influence the conduct of organizations engaged in the several industries. Though governments will change periodically and their purposes will vary, all have to work through the managements concerned to achieve the desired results. We distinguished three categories of controls, bearing on different aspects of managements' tasks -- on the scope of permitted activity, on the mobilization of resources, and on an organization's operations. We identified 26 forms or methods of control in three categories. Our subsequent work, though considerably sharpening our assessment of where the countries stand in respect to the controls, has left their number virtually unchanged at 25.[1] They are described below, pp. 2-8.

We argued that these three categories have different implications for the options open both to the enterprises' management and to a government. Issues of scope go back to the basic statutes setting up the enterprise; issues of mobilization of resources concern the enterprises' command of means to perform; and operations within the ambit of the first two sets of constraints can be affected by a government's requirements concerning performance, namely by targets, particular limitations on transactions, and by monitoring activities.

The Control Mechanisms

Detecting and classifying the countries' use of the controls has proved a major task. We present our understanding of the latest position, incorporating known changes up to starting work in 1984. Classification requires caveats to be noted. These are listed following the results.

The 25 forms of control form the columns of matrices A and B below. They may be explained as follows.

Scope

The most important element in a government enterprise's power is the rights conferred by the government, usually in a founding statute, to engage in a specific area of industry, commerce or services and to alter its activities. We have called this the enterprise's "scope." This covers the first five columns of the matrices.

There are a number of facets to this power, which we regard as the enterprises' potential for influencing outcomes:

- first, the original boundaries for transactions are specified. They often mark off the territory occupied as the government enterprise's alone. The principal implication is that entry by other organizations is markedly impeded. This is recorded in column (i).

- second, there are rules concerning changes in those boundaries. One of the major differences between managing private and public enterprise stems from how an enterprise's scope may be changed. In the private sector, there is normally a great degree of freedom to decide such changes (except with respect to encroaching on public industry). With government enterprises, changes in territory via acquisitions and disposals are normally (at least in theory) closely confined and controlled. This facet is denoted "government approval of acquisitions" and "disposals," columns (ii) and (iii).

- in addition, competition law, and enterprises' subjection to it, are closely related to the conditions of entry. It bears on permitted practices with respect to customers and suppliers and on the enterprises' ability to undertake action with others in the same industry or related industries (column iv).

- finally, where the territory is not exclusive to the government enterprise, there may be various types of regulation or protection which allow the government either to control the quality and number of those domestic and foreign enterprises which operate in the field of the government enterprise, or to cushion domestic enterprises as a whole from the full impact of foreign competition. In either case they serve as a constraint on the activities of non-government enterprises and as a means of "preserving territory." These we have denoted "special protection" (column v).

Mobilization of Resources

Enterprises have to mobilize resources to perform their permitted tasks. We distinguish two major types of controls in this sphere: first, on the selection of management, normally confined to the apex or near-apex of the organization, column (vi).

The second type of control concerns finance. An organization's status as described in the rows of the matrices by definition excludes the provision of equity to the non-incorporated departmental agencies and the public law bodies (column vii). For the latter types and the incorporated bodies, it can provide grants and loans (column viii).

Aside from this, a number of modes of control are identifiable:

- the provision of direct subsidy for specified activities (column ix).

- the extension of government guarantees for finance raised outside the government (column x).

Approval for the last item may be partly to control the amounts raised, partly to direct the enterprise to sources considered desirable from a government policy viewpoint, or partly to reinforce the basic controls over territory (column xi).

Controls on Operations

Governments may seek to influence particular elements of the management, including day-to-day decisions affecting consumers and other interested parties, by means of a variety of controls, which we have put into three broad categories. These cover columns xii to xxv. First are "performance requirements," seeking to influence conduct by setting and (usually) announcing targets. These cover purely financial targets, specified rates of return on proposed investment projects, and non-financial performance targets such as improvements in productivity, cost levels, quality of service, etc. These are respectively columns xii, xiii, and xiv.

Next, governments may put limitations on the transactions which a public enterprise may effect. They impinge on management's freedom to transact in the markets relevant to it, first with respect to buying (purchasing constraints) and second with respect to selling (prices) (columns xv and xvi). Other constraints arise in location and employment levels (columns xvii and xviii).

The distinction between a "target" and a "constraint" is a matter of degree. A government's wish to influence purchasing conduct, for example, may take the form of a positive direction to source from a nominated supplier or in a specific area, or the stipulation of a given percentage of goods to be taken from national sources. These we consider as non-financial performance targets. Constraints, on the other hand, put bounds on the options an enterprise may consider. They might, for example, exclude purchase from certain sources. The distinction ultimately depends on the alternatives remaining open to the enterprise and thus on how tightly the constraints are set. It should also be noted that constraints, particularly those on location, are not exclusive to government enterprises but often form part of government's general function of overseeing the economy. One can also regard general competition law as setting up constraints on transactions. We have chosen to emphasize its relation to the issue of entry control by classifying it under "scope."

Further restraints on action can be specified, e.g., limits on the levels of external finance allowed an enterprise (column xix), or these may take the form of a requirement that government approbation, whether explicit or merely implied in the non-exercise of a veto power, must be received before a proposed action can be executed. The latter comprises veto by a government representative (column xx), and government approval of investment proposals (column xxi).

Monitoring Activities

The third category of operational control, "monitoring activities," concerns the generation of the means, and in particular the information, to develop the government's own needs to show accountability for, and stewardship of, the public enterprises that voters and other constituencies have, in effect, delegated to the government. They are also the principal means by which enterprises may be subject to criticism, whether organized or not.

External auditing may be performed simply to ensure financial and accounting propriety as applied in the economy at large (column xxii). This column includes assessment of effectiveness and efficiency in the auditing performed by the national audit bureaus or in the additional reports provided by other agencies in the case where the auditors are simply accountancy firms appointed by the government.

The government may be represented by civil servants (column xxiii); presence or absence of representation of the government as shareholder is, again, implicit in the type of organization and is assumed in those organizations where the government has an equity involvement, though this is not to imply that shareholders' rights are necessarily exercised therein (column xxiv). Approval of corporate plans is considered a monitoring item rather than a specific approval of investment plans, because a chief use often appears to be to create the means by which the government and the enterprise can create common views about longer-term prospects for the enterprise, and in particular the impact of exogenous forces on them, and not to impose commitments on either side. This comprises the final column, xxv.

Cross-Country Comparisons

A comparison across countries allows some generalizations to be made about incidence and significance of the controls. As foreshadowed in our interim report, in order to be reasonably confident that these comparisons are well founded, we have had to limit both the number of countries and industries surveyed. The Matrix A, Table 1, presents the results of four findings for three countries (the U.K., France and Italy) and five industries (rail, oil, electricity, gas and motor cars). Some industries are represented by more than one organization. This denotes a degree

MATRIX A

TABLE 1

CONTROLS

COUNTRIES	I. SCOPE					II. MOBILISATION OF RESOURCES						III. OPERATIONS													
						1.Man-Power	2.Finance					1.Performance Requirements			2. Limitations on Transactions							3. Monitoring			
	Territory Demarcation (i)	Govt Approval of Acquisitions (ii)	Govt Approval of Disposals (iii)	Exemptions from Domestic Competition Law (iv)	Special Protection (v)	Appointment of Board Members (vi)	Govt Provision of Equity (vii)	Govt Provision of Non-Equity, Non-Subsidy Finance (viii)	Govt Provision of Subsidy (ix)	Govt Guarantees for Non-Govt Finance (x)	Govt Approval of Access to Non-Govt Finance (xi)	Financial Targets (xii)	Investment Return Targets (xiii)	Non-Financial Performance Targets (xiv)	Purchasing Constraints (xv)	Pricing Approval (xvi)	Location Constraints (xvii)	Employment Maintenance Constraints (xviii)	Borrowing Limits (xix)	Govt Representative Veto (xx)	Approval of Investment Programme (xxi)	External Auditors (xxii)	Govt Representation Within the Organisation (xxiii)	Shareholders' Representation (xxiv)	Approval of Corporate Plan (xxv)
UNITED KINGDOM																									
i) BRITISH RAIL (BR); Nationalised Industry	✓	✓	✓	✗	✗	✓	✗	✓	✓	✓	✓	✓	✓	✓	✗	✓	✗	✗	✓	✗	[illegible]	[illegible]	✓	✓	✓
ii) BRITISH NATIONAL OIL CORPORATION (BNOC) Nationalised Industry	✓[2]	✓	✓	✓	✓[3]	✓	✗	✓	✗	✓	✓	✓	✓	✗	✓	✓	✓	✗	✓[57]	✗	[illegible]	[illegible]	[illegible]	✓	[illegible]
iii) BRITOIL; 49% Government Share-Holding in Private Company	✗	✗	✗	✗	✗	✓[10]	✓	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✓	[illegible]	✓	[56]	✗
iv) BRITISH PETROLEUM (BP); 31.76% Government Share-Holding in Private Company	✗	✗	✗	✗	✗	✓	✓	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✓[8]	✓	[illegible]	[illegible]	[56]	✗
v) CENTRAL ELECTRICITY GENERATING BOARD (CEGB) Nationalised Industry	✓	✓	✓	✗	✗	✓	✗	✓	✗	✓	✓	✓	✓	✓	✓	✓	✓	✗	✓	✗	[illegible]	[illegible]	✓	✗	✓
vi) BRITISH GAS CORPORATION (BGC); Nationalised Industry	✓	✓	✓	✗	✗	✓	✗	✓	✗	✓	✓	✓	✓	✓	✓	✓	✓	✗	✓	✗	[illegible]	[illegible]	✓	✓	✓
vii) BRITISH LEYLAND (BL); 95% Government Share-Holding in Private Company	✗	✓	✓	✗	✓[5]	✓	✓	✓	✗	✓	✓	✓	✗	✗	✗	✗	✓	✗	✓	✗	✓	[illegible]	✓	[56]	✓
FRANCE																									
i) SOCIETE NATIONALE DES CHEMINS DE FER (SNCF); Etablissement Public	✓[1]	✓	✓	✗	✗	✓	✗	✓	✓	✓	✓	✓[11]	✓[11]	✓	✓[12]	✓[15]	✓[13]	✓[13]	[illegible]	✓	[illegible]	[10]	[illegible]	✓	[illegible]
ii) SOCIETE NATIONALE ELF ACQUITAINE	✓	✓	✓	✗	✓[17]	✓	✓	✓	✓[47]	✓	✗	✓[11]	✓[11]	✓	✓[12]	✓	✓[19]	✓[19]	✗[51]	✓	✓	[illegible]	[illegible]	[56]	✗
iii) COMPAGNIE FRANCAISE DES PETROLES (CFP); Societe D'Economice Mixte with 35% Government Share-Holding (40% of votes)	✗	✓	✓	✗	✓[17]	✓	✓	✗	✗	✗	✓	✗	✗	✓[25]	✗	✓	✓	✗	✗[51]	✓[26]	✗	✓	[illegible]	[56]	✗
iv) ELECTRICITE DE FRANCE (EdF); Etablissement Public	✓[20]	✓	✓	✗	✗	✓	✗	✓	✗	✓	✓	✓[11]	✓[11]	✓[11]	✓[12]	✓	✓	✓	✗[51]	✓	✓	[10]	[illegible]	✓	[illegible]
v) GAZ DE FRANCE (GdF); Etablissement Public	✓	✓	✓	✗	✗	✓	✗	✓	✗	✓	✓	✓[11]	✓[11]	✓[11]	✓[12]	✓	✓	✓	✗[51]	✓	[illegible]	[10]	[illegible]	✓	[illegible]
vi) RENAULT; Etablissement Public	✗	✓[45]	✓	✗	✓[5]	✓	✗	✓	✗	✓[49]	✗	✓[55]	✓[55]	✓[55]	✗	✓	✓[22]	✓	✗[51]	✗	✓	[10]	[illegible]	✓	[illegible]
ITALY																									
i) FERROVIE DELLO STATO (FS); Azienda Autonoma	✓[1]	✓	✓[48]	✗[38]	✓	✓	✗	✓	✓	✓	✓	✗	✗	✗	✗	✓	✗	✗	✗	✗[34]	[illegible]	✓	[illegible]	✓	[illegible]
ii) ENTE NAZIONALE IDROCARBURI (ENI); Ente DiGestione (Holding Company) and Ente Pubbliche Economiche	✓[30]	✓[43]	✓[43]	✗[38]	✓[3]	✓	✗	✓	✗	✓	✓	✗	✗	✓[36]	✓[27]	✓[28]	✓	✓	✗	✗	[illegible]	✓	[illegible]	✓	[illegible]
iii) ENTE NAZIONALE PER L'ENERGIA ELETTRICA (ENEL); Ente Publicche Economiche	✓[31]	✓	✓[4]	✗[38]	✗	✓	✗	✓	✗	✓	✓	✗	✗	✗	✓[37]	✓	✓	✗	✗	✗	✓	✓	✓	✗	[illegible]
iv) ENE NAZIONALE IDROCARBURI (ENI); Ente DiGestione (Holding Company) and Ente Pubbliche Economiche	✓[30]	✓[43]	✓[43]	✗[38]	✓[3]	✓	✗	✓	✗	✓	✓	✗	✗	✓[29]	✓	✓	✓	✓	✗	✗	✓[44]	✓	[illegible]	✓	[illegible]
v) ALFA-ROMEO Societa Partecipazione Pubblica under Finmeccanica. (15.94% owned by IRI directly, the remainder via Finmeccanica).	✗	✓[40]	✓[40]	✗[34]	✓[5]	✗[32]	✓	✓	✗	✗[35]	✗[34]	✗	✗	✗	✗	✗	✗[33]	✗[36]	✗	✗	✗[30]	✓	✗	[illegible]	✗

Notes to Table One

UK

1 Some local systems not owned by BR.

2 Participation rights.

3 Licensing (exploration and production).

4 95 per cent government shareholding.

5 Import controls.

6 Expected to improve its financial performance, though not to set a financial target in the sense that the nationalized industries are.

7 Government holding = 31.73 per cent.

8 Right is there, but not used to date.

9 Government holding = 49 per cent.

10 As long as Government share remains above 20 per cent.

11 May be set under "contract" with the Government. An interministerial committee has been given the task of making certain that there are no contradictions between these and the national plan.

12 Approval of purchasing commission necessary for all proposed contracts above specified cash limits, e.g., ERAP refused permission to purchase the American corporation, Kerr McGee.

13 Operations in the Massif Central and west and south-west France -- unclear as to whether there is a directive to operate there or a constraint on location in general. It may be an instruction regarding location only or, in addition, one regarding employment levels.

14 Not statutory, but generally expected to maintain a reasonable balance between own resources and debt. (This became a target under 1970 "contrat".)

15 Modified under 1970 "contrat" to rather vague undertaking that the State would not oppose moderate average increases but Barre would not allow SNCF to alter prices as they wished preceeding the 1980 election.

16 Cour des comptes.

17 Licensing (importing and refining).

18 Short-term loans can be freely entered into.

19 According to Grayson, the le Nickel investment looks like pure employment maintenance and it was directed.

20 Monopoly of transport and distribution, not production.

21 Import controls.

22 Though the company has argued on a number of occasions, and actually refused when it was doing very well.

23 But the investment programme is developed with a particular concern for regional policy.

24 At least, the corporate plan is submitted to the government as a "shareholder."

25 "Devoir national." Obliged to take a certain percentage of their crude supplies from the National group.

26 More the right to suspend a decision than to veto it.

27 Has been directed to purchase loss-making companies, but directives (other than on investment in the south) are not binding.

28 "Prezzi sorvegliate" (price surveillance) -- strict with regard to petrol. If prices vary from average European price by more than a certain amount, the government sets the price.

29 Court of Accounts (Corti Dei Conti).

30 Exclusive rights over Italian gas and oil deposits.

31 Legal monopoly, but can give permission for others to produce.

32 Appointed by IRI, not the government, though it would appear that IRI's "suggestion" is generally the government's choice. All other controls shown are those exerted by the government.

33 IRI is required to devote proportion of new investment to southern Italy (not 80 per cent). It would appear that Alfasud, the Alfa-Romeo plant near Naples, was part of this policy; i.e., although there may be little direct governmental control over the operating companies, policy towards the Enti effects them also.

34 Can raise money through shares, but borrowing requires government approval.

35 Not officially.

36 Can be funded to keep workers on in a slump (applies to private enterprise as well).

37 Carbosarda's production - but a very small proportion of ENEL's needs.

38 No indication in the Civil Code.

39 Only since the 1980's has operational and planning responsibility devolved from the Minister to the FS board and the Director-General, along with some autonomy in commercial decision-making, with the Minister retaining control chiefly over forward strategy.

40 Although the control is basically over IR, if an action will change the status of the company, permission must be sought from the government.

41 Not apparent from IRI's yearbook, 1984.

42 Annual programmes by CIPE (though "examined" by Minister of State Holdings from the technical/economic, financial employment point of view). Long-term programmes by CIPI.

43 Minister of State Holdings has to approve.

44 Prior examination by Parliamentary Committee.

45 Though Parris records the view of the 9th Report from the Public Enterprise Accounts Committee that the company had continued to create subsidiaries and to acquire holdings without the approval expressly required by law.

46 Annual and long-term plans by CIPE.

47 Intermittently (e.g., SNPA from 1950-60).

48 Total closure of rail lines is possible only by Presidential Decree, but other disposals -- e.g., selling shares in subsidiaries -- appear not to require permission.

49 Re AMC takeover, the government made it clear that they would underwrite any losses -- seems to indicate an implicit state guarantee.

50 Government "approval" of the Alfa-Nissan deal was reported -- unclear as to whether this approval (to build a new plant) was permissive, rather than expressive.

51 Though all issues of loans are controlled by the Ministry of Finance as part of its regulation of the capital market.

52 Modified by the Energy Bill of 1983 which removed the prohibition on private supply as a main business. It also placed a duty on the Electricity Boards to offer to purchase electricity from private generators and to allow them to use the Boards' transmission and distribution systems.

53 The Oil and Enterprise Act, June 1982, however, provided for the removal of BGC's gas purchasing monopoly and also for the curtailment of its monopoly in the supply of gas by allowing others to supply large industrial and commercial users through BGC's own pipelines.

54 Assumed.

55 Unclear, but seems these could be set under a "contrat."

56 Must locate 80 per cent of new investment in the Mezzogiorno.

57 A target, rather than a limit, because of the uncertainties of the oil market.

of vertical disintegration of state interests in those cases, that is, into successive stages of production.

Their formal constitution as public enterprises vary, as shown in the accompanying notes. Some entries in the matrix are darker in colour. These represent our best guesses, where information is small or somewhat conflicting. The footnotes indicate further qualifications, but we feel the matrix represents little distortion of practice. It has been checked by an independent expert, Mr. Maurice Garner, and by a representative of the Economics Department of the Italian Embassy for France and Italy respectively.

It is first useful to measure the aggregate degree of agreement across the matrix. In terms of these categories of controls and including our "best guesses," the concordance of experience, in the individual controls listed by column, is as follows:

Table 2

	Scope	Mobilization of Resources	Operations	Total
Presence (tick)	54	69	146	269
Absence (cross)	36	39	106	181
	90	108	252	450

As Table 2 shows, there is somewhat more commonality between countries about the controls comprising scope and mobilization of resources than those concerning operations.

To see whether the countries agree about particular controls, we have to consider the difference in the presence or absence of a control. Complete agreement would be shown by a column of 18 ticks or 18 crosses. A rough measure of agreement is to deduct crosses from ticks and ignore the sign. This works out as follows:

Scope	Mobilization of Resources	Operations
5 controls	6 controls	14 controls
Ticks minus crosses	Ticks minus crosses	Ticks minus crosses
Ignoring sign = 50	Ignoring sign = 66	Ignoring sign = 88
Average = 10.0	Average = 11.0	Average = 6.3

The greatest agreement occurs in "mobilization," closely followed by "scope."

Agreement is much less in "operations." To this extent, our expectation that controls on operation are regarded in practice as less fundamental to shaping managements' freedom of action is confirmed. Operational controls tend to be varied within a wider, more stable context.

Considerable variance between industries and between countries remains. Inspection of Matrix A will suggest two principal sources. We take up below the question of whether an industry is subject to greatly dissimilar treatment in different countries, using railways as an example, which brings in more relevant observations of countries. This also comments on the defined question of whether the precise form of public enterprise, as defined by the row labels, affects the issue for a given type of activity.

Taking the broader, country-wide view of controls at this point, where does most agreement occur, and what appear to be controls having the most variations in adoption? The matrix shows that agreement (their presence or absence) concerns most clearly the following:

- changes in scope, as represented in controls on both acquisition and disposal of productive activities;
- positive control over prices;
- the presence of external auditors; and
- an absence of exemption from competition laws.

In mobilizing resources, control over appointment of Board Directors is most common.

The most striking aspect of these similarities is, first, the manifest importance accorded to maintaining the border between private and public enterprises. Its significance is in giving general reassurance to the private sector of respect for its legitimate domain and the particular wish to avoid questions of undue preference in treatment in commercial transactions between the sectors. (These elements can be seen in controls on changes of scope, and subjecting both sectors to the same monitoring agent.) The most politically sensitive of all performance variables is arguably prices, so it is not surprising to see a common approach which preserves the possibility of direct government influence over performance in this dimension. Emphasis on control over appointing the Board is consistent with a view that, given that a public enterprise must be allowed at least some freedom to manage, the most pervasive form of government influence is through its selection of the enterprises' leaders.

Least agreement occurs in the application of performance requirements of financial targets, targets for return on investment, and non-financial targets. There is also somewhat more variance about limitations on transactions than on monitoring. Clearly, the divergence on performance requirements is, to an important extent, a cross-country variance (Italy versus France); in the U.K. the variation is mostly across industry type. We consider the question of systematic differences in the interpretation of the controls made by the varying political contexts represented in our matrix in the next chapter, where we review observers' comments on issue of controls. We also take up, in Chapter 3, the obviously controversial matter of the use of performance requirements as control measures. This requires detailed knowledge of one country's experience across its public enterprises. For this purpose we select the U.K.

A Seven Country Comparison: Railways

A similar comparison of an industry in several countries, including the three of Matrix A, further clarifies the importance of common industrial circumstances. We are able to perform the analysis for railways only; it proved quite impracticable in the time available to attempt comparable cross-country input for other industries. (We assess the extent to which further time and effort would add substantially to this approach in Chapter 5.) Railways are subject to much the same basic market fortunes and perceived needs for government support.

The results are in Table 3, Matrix B. This extends and consolidates the example shown in our interim report. Seven countries, including Canada, are represented. As with Table 1, caveats are entered in the notes, but despite these some generalizations are possible.

MATRIX B

TABLE 3

RAILWAYS

CONTROLS

COUNTRIES	I. SCOPE					II. MOBILISATION OF RESOURCES						III. OPERATIONS													
						.Man-Power	2.Finance					1.Performance Requirements			2. Limitations on Transactions							3.Monitoring			
	Territory Demarcation (i)	Govt Approval of Acquisitions (ii)	Govt Approval of Disposals (iii)	Exemptions from Domestic Competition Law (iv)	Special Protection (v)	Appointment of Board Members (vi)	Govt Provision of Equity (vii)	Govt Provision of Non-Equity, Non-Subsidy Finance (viii)	Govt Provision of Subsidy (ix)	Govt Guarantees for Non-Govt Finance (x)	Govt Approval of Access to Non-Govt Finance (xi)	Financial Targets (xii)	Investment Return Targets (xiii)	Non-Financial Performance Targets (xiv)	Purchasing Constraints (xv)	Pricing Approval (xvi)	Location Constraints (xvii)	Employment Maintenance Constraints (xviii)	Borrowing Limits (xix)	Govt Representative Veto (xx)	Approval of Investment Programme (xxi)	External Auditors (xxii)	Govt Representation Within the Organisation (xxiii)	Shareholders' Representation (xxiv)	Approval of Corporate Plan (xxv)
UNITED KINGDOM																									
i) Nationalised Industries	✓[10]	✓	✓	X	X	✓	X	✓	✓	✓	✓	✓	✓	✓	X	✓	X	X	✓	X	✓	✓	X	X	✓
ii) Public Corporations not in (i)																									
iii) 100% State-Owned Companies																									
iv) Share-Holding in Private Companies																									
FRANCE																									
i) Departmental Agencies																									
ii) Public Law Trading Organizations	✓[43]	✓	✓[36]	X	X	✓	X	✓	✓[37]	✓	✓	✓[1]	✓[1]	✓[1]	✓[2]	✓[3]	✓[3]	✓[3]	X[4]	✓	✓	✓[6]	✓	X	✓
iii) 100% Share-Holding in Companies																									
iv) Share-Holding in Private Companies																									
GERMANY																									
i) Departmental Agencies	✓[44]	✓	✓	✓	X[27]	✓	X	✓	✓[26]	✓	✓	X[7]	✓[38]	X[8]	X	✓[12]	X	X	✓[9]	✓[10]	✓[11]	✓[13]	✓	X	✓
ii) Share-Holding in Private Companies																									
NETHERLANDS																									
i) Departmental Agencies																									
ii) Associations																									
iii) Foundations																									
iv) Share-Holding in Private Companies	✓	✓[32]	✓	X	X	✓	✓	✓	✓[33]	✓	X	✓[31]	✓[34]	X	X	✓	X	X	X	X	✓	✓[14]	✓	✓	✓[35]
SWEDEN																									
i) Departmental Agencies	✓[2]	✓	✓	X	✓	✓	X	✓	✓[28]	✓	✓	X	✓[15]	✓[16]	X	✓	✓[17]	X	X	X	✓	✓[19]	X	X	✓
ii) Share-Holding in Private Companies																									
ITALY																									
i) Deapartmental Agencies																									
ii) Public Economic Agencies	✓	✓	✓[29]	X	✓[30]	✓	X	✓	✓	✓	✓	X	X	X	X	✓	✓[18]	✓[18]	✓	X[48]	✓	X	✓	X	✓
iii) Sahre-Holding in Private Companies																									
CANADA																									
i) Crown Corporations																									
ii) Subsidiaries	✓	✓[22]	✓[22]	✓[41]	?	✓	X	✓	✓[46]	✓	✓	✓[23]	X	X	✓[24]	✓[42]	X	X	✓[40]	X	✓[39]	✓[25]	✓	X	✓
iii) Associates																									
iv) Joint-Owned Enterprises																									
v) Share-Holding in Private Companies																									

Notes to Table Three

STATUS OF RAILWAYS

BR - nationalized industry, i.e., corporation owned by the State, run by a board and subject to the supervision/sponsorship of the Secretary of State for Transport. The government/Minister is responsible for broad policy, the board for day-to-day management.

SNCF - etablissement public, i.e., a public industrial and commercial institution under a Conseil d'administration, with State, employee, and economic (including consumer) representatives and an Executive Board with similar representation. Under the supervision of the Transport Ministry and the Fonds de developpement économique et social.

DB - departmental agency, i.e., autonomous, non-incorporated special property of the federal government with its own management and accounting, supervised by the Federal Minister of Transport and an Administrative Council of 20 members representing government, industry, and unions appointed by the government. A full-time board of four members appointed by the President manages, but is largely dependent on, Transport Ministry authorizations.

NS - 100 per cent government-owned private law company, i.e., overall policy controlled by a part-time board of Commissioners, with government, industry, and staff representatives; managed by a government-appointed Director-General and a Board of Directors appointed by the Commissioners on the basis of expertise.

SJ - departmental agency, i.e., a trading or commercial agency under the supervision of the Ministry of Transport and Communications. Headed by a Railways Board, appointed by the Ministry, consisting of the Director-General as Chairman, staff, and social sector representatives. A Directorate of the Director-General and government representatives serves as a consultative body. SJ is answerable to the King-in-Council and the Transport Minister is not formally accountable for it in Parliament. Capital budget only forms part of the departmental budget.

FS - azienda autonoma, i.e., technically an independent company through which the State runs the railways. However, the Board is chaired by the Minister of Transport and appointed (except for staff representatives) by the President; it consists of government, railway, staff, legal, and consumer representatives. Its capital budget forms part of the central government budgetary process and, while the 1980s has seen some devolution of decision-making to the Director-General, the Minister retains significant authority.

Notes to Table Three (cont'd)

1 Set under the 1970 "contrat de programme."

2 Approval of Purchasing Commission necessary for all proposed contracts above specified cash limits.

3 Operations in the Massif Central and West and South-West France -- unclear as to whether there is a directive to operate there or a constraint on location in general. Also it is unclear as to whether it is an instruction regarding location only or also one regarding employment levels.

4 Not statutory, but generally expected to maintain a reasonable balance between own resources and debt -- this became a target under 1970 "contrat."

5 Modified under 1970 "contrat" to a rather vague undertaking that the State would not oppose moderate average increases.

6 Cour des comptes.

7 Other than that they are expected to make a financial contribution to the federal government in the form of interest on capital. However, since 1977, there has been a target in the sense of an expectation that they should reduce costs and losses.

8 Other than the provision of an acceptable service to the public.

9 External borrowings require ministerial approval, but no indication to date that actual limits are set.

10 In the sense that government representatives constitute the executive board, they have veto powers.

11 Though a certain level (depreciation allowance +) can be invested without ministerial approval.

12 Though they can vary prices by up to 20 per cent without ministerial approval.

13 Rechnungshof (Federal Audit Office).

14 Government Audit Office.

15 Required rate of return on investment, as it is a "commercial" agency.

16 Directives can be issued by the "King-in-Council" though there are no examples of such to date.

17 No direct evidence re: railways, but seems extremely likely that there are some sort of constraints since regional divergences and thus regional policy are such causes for concern.

18 Though it is generally claimed the ministers' sanction for the employment programme is not needed and that no attempt is made to control the figure (NEDO). Elsewhere it is claimed: "Redundancy is not normally permitted" (Parris).

19 Riksrevisionsverket (National Audit Bureau).

20 Some local lines not run by BR.

21 Licence needed to operate private railways, and they are controlled by National Road Board.

22 Under Financial Aministration Act Amendment, 1984, concerning any purchases' sales in the name of the Crown.

23 Twenty per cent of net income for the year as a dividend to the Receiver-General (can be changed by Governor-in-Council.

24 "It is Canadian national policy to bury Canadian products whenever possible" (CN National Reports) -- but unclear as to whether this is a government-imposed policy.

25 Appointed by the Governor-in-Council.

26 Compensation (i.e., post-operation).

27 Licensing of bus services (long-distance services provided by DB).

28 Only since the 1980s has operational and planning responsibility devolved from the Minister to the FS Board and the Director-General, along with some autonomy in commercial decision-making, with the Minister retaining control chiefly over forward strategy.

29 Total closure of rail lines is possible only by a Presidential Decree but other disposals -- sales of subsidiaries' shares, for example, appear not to require permission.

30 Railways are protected not by rates but by the refusal of licenses for services competing with rail. However, all modes of surface transport are heavily subsidized.

31 In that a strategy is laid down, e.g., 1979 -- government requirement for limitation of deficit on passenger services, 1975 White Paper -- revenues to cover the specific costs of freight by 1980.

32 "Whilst its existing subsidiaries are free to sell to third parties, any attempt to expand into new activities would require government permission. Approval for further acquisitions or expansion normally require Ministry approval which would be given if a 10 per cent rate or return on capital was forecast." BRB Report, 1980.

33 Grants agreed in advance.

34 Freight investment to show "an acceptable commercial return."

35 "The plans are discussed and agreed between BR and the Ministry." BRB Report.

36 The Minister has the power to delay proposed closures for up to 6 months, but thereafter must pay specific subsidy.

37 Agreed in advance under contract system.

38 Internal rate of return -- currently 6 per cent.

39 Included in corporate plan for approval, and approval needed for individual items in the capital budget.

40 Can be set by an Act of Parliament.

41 Common rates and shared information with CPR exempt from provisions of the Combines Investigation Act.

42 Approval of Canadian Transport Commission.

43 Some small railways still exist, but they are of no commercial or political significance.

44 A number of local and locally owned railways, but a few in private ownership also.

The matrix contains various formal constitutions for railways. These are described fully in the notes to Table 3. There are four different types. We may distinguish principally between independent corporations and nationalized industries on the one hand, and department integration of railway operators on the other.

There is little in the matrix to suggest that this constitutional variation greatly affects the incidence of controls. The variation in controls which are applied in each tend to appear whatever the different formal constitutions. This also lends some support to our hypothesis of the interim report that country differences are outweighed by industry likeness.

Table 4 analyses the degree of agreement across countries in the manner of Table 2.

Table 4

	Scope	Mobilization of Resources	Operations	Total
Presence (tick)	25	35	58	118
Absence (cross)	9	7	40	56
	34*	42	98	174

* one special protection in Canada, remains a query.

As a comparison with Table 2 shows, focussing on an industry intensifies the differences between scope and mobilization of resources on the one hand, and operations on the other. Similar measures of agreement for individual controls work out to an average for scope and mobilization of 5.2 and 4.7, respectively, and for operations at 3.6.

In scope, exemption from competition law and the severity of regulation of competition varies, but little else. In mobilization, the only exception is the Netherlands. Its treatment of equity provision and control over access to non-government finance reflect its singular private company shareholder form. This also bears on the concern, noted earlier, to maintain clear rules about the boundary between public and private enterprise.

Controls on operations provide most examples of cross-country variation, but countries commonly maintain government approval of investment plans, and they seek to influence railway management through review of corporate plans. These two are, of course, interrelated activities. They are directed to long-term changes in railway output and performance. However, at any one time, the probability is that railway management will have outlasted the relevant higher level political management by the time the changes envisaged in the investment plans and corporate strategy are in place. Governments' problems with railways normally have a more urgent short-term context -- that of dealing with current or looming railway deficits. So though countries commonly aim to affect long-run plans, they may well share difficulty in doing so. With respect to the deficits, while all governments retain the right to approve prices, considerable divergence appears in the treatment of behaviour affecting financial performance.

Dealing with a perceived need to subsidize railway operations has varied over time and across countries. As will be seen in Chapter 4, the general trend has been, over a long period, towards more state support, a trend punctuated by attempts to reverse it. These efforts have been in turn influenced by the presence or absence of other constraints on management action -- e.g., on location, and employment, which, as the matrix shows, also vary by country at a given time. Obviously, the usefulness, or otherwise, of a given set of controls is a matter for interpretation in particular railway circumstances.

Conclusions

This chapter has presented our findings about the presence or absence of particular types of controls in three countries' public enterprises, and for railways in seven countries. There have been difficulties in discovering and interpreting evidence and we have entered caveats where appropriate. We find that there is considerable variance across countries, but governments do seem to have a common concern to make clear the borderline and thus the terms of transacting between private and public enterprise. They also preserve their ability to intervene in a politically sensitive area like pricing.

The purpose of the exercise has been not only discovery, but also to attempt some generalizations useful to attack the question: how can performance be improved by influencing management action via the controls? We have found some support for the proposition that different countries disagree more about what controls to impose the less important the likely influence on managements' actions are. They disagree more about operational controls than they do about issues of scope and mobilization of resources. We also have reasons to believe from our general knowledge of the material that changes over time in particular countries have been more evident in operational controls.

Differences and changes in controls can be taken to reflect, respectively, uncertainty and dissatisfaction about their effect on performance. Countries will, of course, vary greatly in their expectations of their state enterprises; but they will have in common the perceived need to question controls when doubts about performance arise. If is so, our findings about the variances across the countries raise some relevant questions. Is it in the end possible to improve performance by attempting to change the way in which one attempts to influence operations without considering altering the way in which resources are mobilized? Even more fundamentally, can one avoid revisiting issues of scope? A common feature, we have seen, is maintenance of the borders with private enterprise. Is this in the end sustainable? If the answer to such questions as these is "no," then it might be seen that work on improvement only via operations -- e.g., using performance targets and other definitions of behaviour -- will be frustrated, because of their limited influence on the way in which managers can define and get the resources for their operations. Before such a conclusion can be drawn, however, it seems worth exploring experience with performance variables more closely. This is done in Chapter 3.

Our comparisons have excluded another possibility, because a cross-country tabulation of elements such as that provided in this chapter cannot in practice consider different combinations of controls. So it is also worth speculating whether there is a particular selection of controls which promises superior performance. To test this possibility, one has to reverse the implied causality of the argument so far. This has been from influences, as seen in controls, to performance. Can we pick out success in performance and work back to the structure of controls? We comment on this for the railway case (for which we have most data) and to a limited extent for autos in Chapter 4.

Meanwhile, in the next chapter, we review a set of commentaries on how far the control phenomena represented in our matrices have been deemed to succeed or fail. They suggest great caution in specifying the context in which the problem of influencing behaviour is set.

2 COMMENTARIES ON STATE ENTERPRISE CONTROL PROBLEMS

Introduction

An extensive examination of the available commentaries provides some indications of prevailing attitudes towards the performance of government enterprises and towards governments' efforts to create or change the controls which seek to influence such performance. It has not been a very rewarding exercise. As foreshadowed in our interim report, we have to record a dearth of detailed critical comments bearing on two countries, the Netherlands and West Germany, and, to a lesser extent, Sweden. It is possible to interpret this as evidence of a higher level of satisfaction with the system in those countries. More likely, it is a reflection of the fact that government involvement is enacted in the countries in the main through equity interest in private enterprise rather than through specially created "public" bodies. For example, insofar as opinions are expressed, it is notable that discontent is far greater in the case of the departmental agencies in West Germany than it is with regard to the private law organizations in which the government holds shares.

Nevertheless, it should be noted that much of what follows is, of necessity, mostly based on commentaries dealing with the U.K., France and Italy. It may, as a consequence, overly reflect peculiarly British, French and Italian anxieties. However, it must be said that while the level of dissatisfaction with the performance of government enterprise may be higher in those countries, the issues addressed -- accountability, efficiency, policy direction, etc. -- are common to all six countries.

Though positive comments are not unknown in the literature, the overriding impression remains one of deep-rooted dissatisfaction both with the efficacy of controls and with the enterprises' behaviour. It is also noticeable that while there is often considerable optimism prior to the implementation of "new" control techniques, their application in practice tends to bring disappointment in its wake. An outstanding example is found in comments on the "contrats de programme" in France.

The "Contrat" System

Commentaries on the development in France amply demonstrate the cycle -- a crisis in the affairs, normally financial, of state enterprises; suggestions for reform of controls; implementation of change, usually after further trauma, a period of satisfaction and optimism; and renewed disillusionment. The Contrats de programme were formulated (e.g., for SNCF in 1969 and EdF in 1970) to spell out the conditions of the State's involvement and leave "the managers, within mutually agreed limits, free to manage" (Green, 1982).

EdF was to have greater autonomy over its own tariffs in return for agreeing to performance targets for productivity, the rate of return on capital investment and sales. This replaced an earlier, more informal system, relying without specific enforcement on consensus between government and the enterprises. Thus, Shonfield in 1965 had reported:

> the large corporations... exercise their pressures. The Plan reflects in large part their ideas, or at least a compromise between their wishes and those of officials responsible for government economic policy... The Commisariats du plan complain on occasion that those officials of industries who originate from the sponsoring ministry... act as if they were in some sense the representative of (these) sectional interests.

By 1974, Corti had reported:

> ... of the aims set by the framers of the system (Contrats de programme) the greater independence of management and an improvement in self financing have been achieved. Pricing experience has been more ambiguous... some officials (claim) that there is quite insufficient downwards pressure on costs. The most doubtful aspect of the contracts at present must be their effect on investment where there is if anything an incentive to push.

By 1975, Derivry was cautioning: "although the movement towards autonomy is a reality, its scope must not be exaggerated... There is a fundamental difference between the public interest enterprises (e.g., SNCF and EdF) and those in the competitive sectors."

In 1976, The National Economic Development Office (NEDO)[2] commented:

> it is... an indication of the practical difficulties of the contractual concept that, in the end, the government reserved its right to interfere with both prices and investment as and when necessary for stabilization of the economy. In the case of railways, breaches of contract have been frequent... The contrat de programme seems to be becoming an instrument for the better implementation of government policy.

It noted that, at the time and in the interests of a "coherent energy policy," (sponsor) ministers were seeking "contrats de programme" covering coal and gas as well as electricity."

What actually emerged was the "contrat d'entreprises," concluded respectively in 1978 for the coal industry, the SNCF and la Compagnie General Maritine in 1979, and Air France in 1981. These were three-year rolling plans ("plan glissant") in which the State undertook to cover the cost of public service activities and to act as banker, providing capital and subsidies if these were to be difficult. Detailed investment plans were also to be agreed, with specific performance targets. Hough (1979) comments "the contract usually expressed in a formal written document, entails apparant obligations for both parties; although such a veneer cannot hide the fact that the government is the dominant power."

Cassesse (1981) echoes Shonfield in 1965: the "function of controlling state owned enterprises in France... has frequently turned around into the activities of advising or defending the interests of the public enterprises subject to control..." By 1983, Monsen and Walters report: "the great and bitter disappointment to the managers we interviewed was that after the effort to establish this eminently sensible programme, it was abruptly discarded when political and economic circumstances changed." Marsh (1983) explained "the state companies, rather like the government itself, are labouring under a bewildering proliferation of economic and social objectives."

For completeness, we should note that the newer contract (the "Contrat de plan") applies to companies nationalized in 1982, and is meant to incorporate an attempt to get away from a priori controls over such details as prices and investment. These plans, however, are not yet old enough to be evaluated ("the effectiveness of the new system has yet to be demonstrated" Garner [1985]). They also do not concern the industries for which the control mechanisms were set out in the first chapter and which have extended experience with formal "plans."

The clearest case among our authors of at least guarded enthusiasm with hindsight concerns is the internal effects of the "contrat." Thus, Shirley (1983) says:

> although the financial goals were not always met, the state owned enterprise's financial position were improved by the policy for social service obligations. Also... SCNF reached its worker productivity targets in most of

> the years of the contract (1970-75); EdF exceeded its total factor productivity targets for 1975; EdF decentralized some of their elements; SCNF recognized its operation. Moreover, refinement of corporate planning and the introduction of management audits contributed to better marginal control within SOEs.

This very partial exception to general disillusionment may well be connected with the trend, also noted in the commentaries, towards extending government controls, in turn a reflection of greater government financial involvement. Another way of looking at this is to think of the government as devising, as time goes by, new ways to influence what it regards as necessary internal management reforms. (This is certainly also in our experience a fair interpretation of much of the U.K. nationalized industry experience.) Thus, particular control devices are, in this interpretation, not meant to reform the relations between government and its enterprises. Rather, they are weapons to be picked up, then perhaps discarded when their immediate purpose has been achieved.

We should also note that the cycle of hope renewed and dashed is also true of devices besides that of the "contrat." For example, on the holding company device, Shirley (1983) notes: "To avoid... direct control, many countries rely on holding companies, some of which have proved to be a useful way of achieving government aims, whilst giving SOE's greater direction in day to day cooperational matters. Others have become counterproductive, substituting one form of ex-ante bureaucratic intervention for another." Monsen and Walters (1983) comment that "firms can become frustrated with having to go through the holding company for funds" and note that Rolls Royce even wanted to become directly controlled by the government because of this. Moreover, they say, "We have not been able to discover a single case of a chairman or the executive of a European nationalized company who was replaced for failing to achieve a required rate of financial return" (which our analysis of Chapter 1 shows to be a widely adopted, but by no means universal device).

Models of Government-Public Enterprise Relations

Comments such as those we have reviewed in the last section raise the question of whether much criticism of controls has proceeded from applying, usually implicitly, an inappropriate paradigm for analysing the relations with governments. For example, among the authors cited, there is much hankering after a private enterprise model, as if this would certainly improve performance if adopted. This idea is mistaken on at least two grounds. The first concerns the scope of the enterprise. As seen in Chapter 1, this is deliberately tightly drawn in the case of the public enterprises. As Mazzolini (1979) commented, one result of this is that it inevitably leads to delay in an enterprise proposing an action and the government approving it. In turn, this "often means that the opportunity to be exploited has gone. For example, one company reported that it had identified an attractive opportunity for take over of a firm in Latin America. By the time it got approval to go ahead with the venture, somebody else had acquired the firm." Such control over boundary changes constitutes one of the fundamental differences between public and private enterprise, and makes expectations for the former unrealistic if based on performance of the latter.

Second, as we have seen, the provision of services or products is often imposed on the enterprises, and then are used as active instruments of general economic policy. Motives for creating state enterprises always have included non-commercial aims; they are explicitly expressions of social purpose. Economists in particular have for a long time advised the reconciliation of commercial and social aims by an application of specific subsidies, each to be justified by the government with reference to its own political priorities, and expressed as a cash compensation to the state enterprise to cover its losses in providing the social outputs. This, it is argued, preserves the independence and commercial integrity of the state enterprise, and efficient economic behaviour. Our survey has failed to disclose any evidence of the adoption of this time-honoured prescription. The implication must be that governments prefer the confusion of social and economic aims. Yet commentators very often insist on assuming that a private enterprise model is workable.

A particularly clear example of a government's refusal to adopt a system of specific subsidies occurred in the U.K. railways case in the 1970s. The intention to set up such a system was provided for in the then Labour Government's 1968 Transport Act, and indeed, the total subsidy paid to railways was, in the event, formally divided into the many individual services thought to be loss-making. However, this remained an accounting fiction throughout the subsequent government's term. The anticipated mechanisms to evaluate the social worth of particular subsidies were never developed, in spite of railway urging and initiative. In 1975, the new Labour Government abandoned the fiction, establishing instead a general "Passenger Service Obligation" grant to cover all passenger output. So governments of both political persuasions had failed to grasp the nettle (Beesley and Evans, [1981]).

The other side of the coin of the notion of too little independence for state enterprise is the idea that they have too much. The paradigm, as it were, is reversed -- the enterprise is seen as "running" the relevant part of government. This line of criticism sees the enterprises as being too independent (as in Posner and Woolf's depiction of Italy's IRI as a "machine without a driver" [1967]) or that they exert excessive influence over the formulation of government policy as opposed to their accepted role of implementing it (e.g., Electricite de France's imputed role in the formation of France's nuclear power programme). While the latter could be claimed as evidence of undue influence, it does not appear particularly unusual or (in view of the reasons for establishing state enterprises) undesirable that one of the major producers in an industry should advise or lobby the government on policy towards future developments in that industry. Obviously it is a question of degree. The relation between government and state industry is necessarily close.

Thus, the first paradigm sets an unrealistic expectation for replicating the independence characteristic of private enterprise; the second accords an unrealistic impotence to the state. This in turn raises the question: what is the appropriate model to assume for relation between political influence and the enterprises? Now, in many countries, including most certainly France and the U.K., one can more or less usefully suppose a superordinate system in which there is (for a period ahead) an unchallenged government, legitimized by independent political processes. It can be seen as dealing with ultimately subservient, if imperfectly influenced, inferior bodies, of which state enterprises are one example. But much commentary on Italy in effect challenges this model.

There are, for example, Italian complaints of lack of accountability (to the state) on the part of holding companies and other enterprises (IRI, ENI et al.), and the absence of conscious direction from the Ministry of State Holdings. Thus Corti in 1973 said IRI is "an industrial state within a state, wholly unaccountable to any democratic body." He ascribed this as follows: "as Leon has pointed out, this is in fact a function of weak administration." Shonfield, at an earlier period (1965), spoke of "bosses of great public enterprises" (like ENI) operating "with greater personal freedom of decision than the typical head of big corporations in private industry." Stefani (1981) notes that despite Presidential decree No. 546 (14.6.67) CIPE[3] must ensure that the annual and longer-term plans of IRI, ENI and the other managing agencies are in line with the national economic plan, but remarks "in fact it does not happen, because national planning in Italy is something often referred to but never implemented." Other commentators (and indeed those we have quoted at other points) recognize that state enterprises in Italy are part of the relevant political processes, not independent from them.

Passigli (1975) considers his observation that the Court of Accounts is a "voice crying in the wilderness" to be a clear indication of the elected politicians' unwillingness to modify the role of what he terms the "special administration," i.e., the public enterprise bosses. He further questions whether the origins of such restraint on the former's behalf lie in the agencies' "important role" in financing certain major parties. Corti (1974), in similar tones, highlighted the "brute fact" of IRI's control over a "substantial block" of deputies in the legislature's lower House and thus its ability to ensure "acceptability" of its policies, while Cassese (1981) proposed that perhaps the mediation efforts of the Minister of State Holdings (i.e., between Parliament and the enterprises) have proved useful only to the Minister and the party he represents. In the light of such comments, the oft-called-for increase in staff at the Court of Accounts and the Ministry, and/or extension of Parliamentary surveillance over the enterprises, seem unlikely to significantly amend the activities of the agencies.

While IRI and ENI's independence from government control is generally accepted as stemming from their reliance on the market for funds (since "he who pays the piper picks the tune" -- Passigli, op. cit.), their increasing reliance on state finance from the early 1970s on appears to have led to no significant decline in this independence. In 1981, by which time their financial position had further deteriorated, Cassese felt justified in noting that "government control of state-owned enterprises had progressively increased, but the effectiveness of these controls has not." (op. cit.)

Most comment in the U.K. has centered on the relation between sponsoring ministries, as representatives of a government and their respective nationalized industries. The same doubts about the division of labour between them arises as in other countries. Foster (1971) asserts that the Minister does not exercise as much power as he could. Steel and Heald (1982) say that the formal statutory expression of this power, that of issuing a general direction to the nationalized enterprise, has been very little used, in their opinion, because of doubts on the part of central departments as to whether their use in specific contexts would survive a challenge in the courts. Informal powers are, they consider, more important. A much quoted symbol of this is the lunch-time meetings with chairmen, where the Minister indicates in confidence government's preferences for action by a nationalized industry. The public sanction of the direction is sometimes, but by no means always, implicit. Ministers, of course, often have good political reasons to proceed informally.

But Dudley and Robertson (1984) stress the powers of the nationalized industries. There is, they say, a "lack of confidence" among ministers and officials to turn down suggested investment projects; they lack the expertise of the industries, and they attribute much influence to the Nationalized Industry Chairman's Group in shaping legislation bearing on nationalized industries. The Group grew out of more informal exchanges between the chairmen in the early years of nationalized industries. It has constantly taken the line that clearer objectives should be given to nationalized industries in the interests of their efficient management. The Group, and many other business-oriented commentators, would see departmental powers as normally a drag on their efforts to create a managerial climate for clear accountability. The debate has rumbled on for many years.

Perhaps Byatt (1984) best sums up the general feeling of an unresolvable problem by saying, with the caution appropriate to the Government's Deputy Chief Economic Advisor, "perhaps the political context of the relationship (between the Government and the nationalized industries) inevitably involves both fuzziness and conflict."

This excursion into the commentaries shows that if expectations are not to be unrealistic, then there must be no illusions regarding what can practically be demanded of either public enterprise per se or of any control system devised for them. One must also be wary of focussing exclusively on the public enterprise in its relation with government. It is argueable whether it is appropriate to analyse as if the government proposes and the enterprise disposes; politics may have, instead, to be treated endogenously. Certainly this is true for Italy. However, the difficulty with applying such a model is still that the political elements in it have to be specified. No author seems to have achieved this.

Proposals for Reform

This general failure to provide a satisfactory model within which to analyse the government-nationalized industry relationship has not prevented suggestions for changing it through formal redefinition, or changing the machinery. In 1977 Garner was advocating a "representational board" -- that is, one in which the interested parties such as the industry's unions and departments would be directly represented. NEDO, at about the same time, was declaring "exclusion of ministerial intervention is ineffectual, and it is therefore better to adopt a form of organization which permits ministerial interventions but makes ministers responsible for them" (NEDO 1976). At that time NEDO was canvassing the creation of a policy board to sit between the department and nationalized industry, which would hopefully be the forum for the resolution of longer term conflicts, and would allow the industry itself to proceed on more conventional management lines.

In this, NEDO seems to have been favourably impressed with the Swedish experience. Their state holding company (the Statforetag) provided an alternative form, alongside the trading agency, more directly analogous to the direct departmental-industry relation characteristic of British nationalized industries. In 1976 they commented "it is a significant and important fact that control of public enterprise operates smoothly and without rancour." It offered the following reasons: "... it is accepted that strategic decisions on tariffs, level of service and investment are ultimately the responsibility of the Minister. This prevents conflict." The agencies had "tight parliamentary control over finances. This deters interventions and promotes ministerial responsibility." There is also "fairly full disclosure between the agency enterprises and their sponsor ministries. This eliminates suspicion." The National Audit Bureau, in the process of developing "quantified criteria of performance" would, they thought, gain ready acceptance in the agencies. Corti, in 1974, had contributed to this generally favourable impression by saying "the Swedish experience" (of the Statforetag) has so far, achieved "enhanced management independence vis-à-vis government, but possibly at the price of increased tension with some workers." NEDO sought to avoid this tension through its suggested provision for worker representation on the policy board.

But it was never clear which of these phenomena was cause and which effect. Sweden had enjoyed an exceptional period of political stability, internal and external. It was a small country; national consensus building, at least then, appeared relatively easy. As NEDO itself commented, "the men holding top appointments in... public enterprises... are generally well known to Ministers" who, with "Members of Parliament and senior civil servants, can keep themselves fully au fait with the performance, attitudes and reputation of the men they have appointed. Knowledge of the men thus operates in Sweden as a surrogate for objective measure of performance." The alternative paths for influence open to the state in Sweden had been noted by Stromberg (1970).

Relative satisfaction with machinery could therefore be evidence of relative lack of conflict rather than evidence of superior arrangements. And the problem of reconciling commercial with social aims in a preferred managerial style has not, it seems, been satisfactorily solved. Monsen and Walters (1983) say "though the existence of a Statforetag as a buffer between Government and the management of State companies has reduced political intervention, the compensation for non-commercial duties imposed by the Government, while wholly accepted in theory, has not always been followed in practice."

Conclusions

The central fact emerging from this review of commentaries is that no individual mechanism for control has been immune from eventual disappointment with its practical application; and any mechanism has to be interpreted in the particular circumstances of its application. Yet each of the mechanisms given some attention by the authors -- the contracts, the holding company device, the representational board, specific subsidies for social services -- seems to have been viewed at some point as intrinsically useful, with, to be sure, a need for complementary changes in other aspects of the control relationship. In part, we have seen that the generally unrigorous discussions may well be due to difficulties with setting up workable models incorporating the politics of the State and the enterprises' management requirements. Could this be done, evidence might be less ambiguous about causality than it has seemed in our review. It is clear, however, that such a model is highly unlikely to be applicable across the countries with which we are concerned.

Neither, to judge from the U.K. experience, is the same form likely to work equally well for different industries. The nationalized industries were set up along a "Morrisonian" model, in which, in effect, social responsibilities were delegated by governments to be interpreted by the respective boards, with the government's reserve powers to intervene intended to be used but rarely. The financing of social purposes was to be the board's concern; monopoly powers over supply were conferred to create the wherewithal to cross-subsidies. The boards were, originally, deliberately constructed to reflect a cross-section of national interests. This model failed very obviously wherever the supply monopoly proved inadequate to sustain the necessary finances, as in rail and coal. However, it is still arguably a viable model for the U.K., where the original conditions still pertain -- as for example, in gas. Indeed, chairmen of prosperous nationalized industries still occasionally profess themselves good Morrisonians! But it may well be doubted whether the model is feasible with the latter day concerns of U.K. governments, as, for example, drawn out in the discussion in Chapter 3.

Thus, it seemed that if a particular combination of methods of control is to be successful, it will not only have to meet the circumstances of particular industries, but it must also reflect an appropriate model of government-enterprise relations. However, this chapter has not addressed directly experience with such a set of methods, neither has it considered the possibility that specific experience with performance could point to preferable mechanisms. The next two chapters take up these themes.

3 USING MULTIPLE PERFORMANCE CRITERIA AS MEANS OF CONTROL

A method of assessing the performance of state enterprises and controlling their operations which has been used at different times in a number of permutations in different countries in recent years is the setting of a number of linked performance targets. This chapter examines the attempt by the U.K. to establish such a method for its nationalized industries (excluding, therefore, companies with government shareholdings) in 1978. It explains the basis of the method, analyses the difficulties in making it work, describes what happened in practice and draws conclusions about the use of such a method.

The Basis of the Mechanism

It will be recalled from Chapter 1 what the present range of U.K. controls is. In 1978 they included those on the permitted scope of the enterprise, on the mobilization of resources, and operational controls such as investment reviews and power to approve price levels.

The 1978 White Paper (CMND 7131) modified the framework in three main ways: first, a financial target as the "primary expression" of financial performance was set, to be decided industry by industry, generally for three to five years and published together with the outturn in the annual report. The target

> will take account of a wide range of factors. These will include the expected return from effective, cost conscious management of existing and new assets; market prospects; the scope for improved productivity and efficiency; the opportunity cost of capital; the implications for the Public Sector Borrowing Requirement; counter-inflation policy; and social or sectoral objectives for, e.g. the energy and transport industries.

Second, a Real Rate of Return (RRR) of 5 per cent before tax on new investment as a whole was imposed -- a figure to be reviewed every three to five years. The 5 per cent level was to be based on "the pre-tax returns which have been achieved by private companies and the likely trend in the return on private investment." It was also said that "the cost of finance to the private sector has also been taken into account along with consideration of social time preference."

Third, non-financial performance indicators were also to be agreed:

> So that the public can be better informed on the industries' success in controlling costs and increasing efficiency... The government has... asked each industry, in consultation with its sponsoring department, to select a number of key performance indicators, including valid international comparisons, and to publish them prominently in their annual reports. They would be supported by an explanation of why they had been chosen and of significant trends...
>
> ... there will probably be some indicators common to most including, for example, labour productivity and standards

> of service where these are readily measurable. The Government has asked each industry to start publication of historic performance series as soon as they can...

The White Paper went on to propose that these data should be set in the context of other important pieces of information to be published in the annual report and accounts. A summary of the broad objectives in the industry's corporate plan was to be given, as well as a summary of the government's main current instructions and guidance, the financial target set and the outturn (with a comment on the comparison) and the cash limit, again with the outturn. Taking these together, therefore, the annual report and accounts were expected to give a comprehensive picture of plans and performance to enable those outside the industry to build up a picture of the targets set and results achieved.

The system was therefore an attempt to establish the basis for agreement on targets between the industries and the government. There was also an assumption that influence would be brought to bear on the industries through the moral pressure of being seen to be performing satisfactorily against targets. This pressure was to be supplemented by comparisons with other, similar organizations (through the publication of international comparisons) and by more direct pressure from the public or its representatives (through the emphasis on disclosure). There was, however, implicit recognition that over the years the industries and the governments of the day have needed to appeal more to outside opinion, the government to mobilize political support and the industries to further their desire to run their businesses with less pressure from governments. For example, a "good" performance in the public's estimation would improve the position of each party, and vice versa for a "bad" performance, though not necessarily to the same degree.

Difficulties Inherent in the System

Before long, it became clear that there were a number of difficulties in operating the system, some stemming directly from the system as proposed and others from the use of multiple performance measures. First, there was the question of establishing the relationship between the financial target and the RRR.

The White Paper suggested that an industry's revenue requirement should be the link between the RRR and the financial target, the financial target being set to reflect the need to earn the 5 per cent RRR. But there were likely to be difficulties in linking these two. One was the difference in the time scales involved. The financial target was supposed to last three to five years. The RRR, on the other hand, was to be assessed over the life of the project as a whole, and indeed might well be altered by the time a project with a long lead time came on stream. After many years, and if there was a regular ordering pattern, the time difference might not prove to be a problem. But in the initial years and where there was lumpy investment, it was likely to be very difficult to have year-by-year matching. Further, in any one year of the three to five years span of a financial target, the actual rate of return on investment was unlikely to correspond to the 5 per cent average RRR, except by accident. Nor would the link be made any easier by the fact that estimates would have to be made for the rates of return on the "old assets."

A second major practical difficulty in linking was that while the RRR was to be based on cash flows in real terms, the financial targets were set in money terms based on the accounting figures. Translation from real to accounting terms is technically very difficult and there are additional complications when the "inflation rate" for the industry is significantly different from that of the economy as a whole.

The second problem was to reconcile the need for capital rationing and risk with a standard RRR. The idea of taking, for all industries, an average of 5 per cent RRR on new investment as a whole was conceptually difficult to justify and proved difficult to apply in practice. In terms of using an average, the level at which the financial targets were set was supposed to mirror the difference in the circumstances of each industry. But the White Paper stipulated that all industries had to meet the 5 per cent RRR hurdle, which was supposed to be linked to their financial target via the corporate plan. It is difficult to see how using the same RRR could, or can, be justified. The industries have quite different risk profiles and very different competitive trading circumstances. These differences indicate that a different RRR should be used for each industry. This would also be an appropriate response to a government's wish to see less expenditure from public sources. This, in the event, has been an increasingly important feature of cash allocations by the governments since 1978.

There was, true, a small concession in the White Paper allowing the industries, in consultation with their sponsoring departments, to choose the appraisal method for new investment. But this was hardly enough. At a practical level it would have been difficult to see how the revenue for each programme could be distinguished. There are some industries where revenue streams are easily identifiable for individual projects, but for others, such as British Gas or the Post Office, it is impossible.

A third difficulty lay in reconciling the different performance measures. The idea that the industries should agree non-financial performance indicators with their sponsoring departments was to enable non-financial as well as financial performances to be monitored by the government and public opinion. In practice there might well be conflicts between success against financial as opposed to non-financial performance measures, including those on standards of service. For example, projects which were intended to improve the financial return might cause a deterioration in standards of service.

A similar conflict might arise between better performance against non-financial indicators and the achievement of a 5 per cent RRR. An industry might seek to improve its standards of service by accepting projects which fail to meet the 5 per cent RRR. The expectation behind the combination of a fixed RRR and the indicators presumably was that the financial target was paramount. This would mean, if there was a conflict, that the non-financial performance criteria would have to take second place. This might have been consistent with the idea of applying multiple performance criteria had the financial target taken account of all such matters as the standards of service when it was set. But, with the information then available, this would have been far too difficult a task to accomplish, even had it been attempted.

Thus a fourth difficulty was to reconcile targets in framework with other targets and social or sectorial objectives. The idea of reconciling the RRR, the financial performance measures and the non-financial measures through the corporate plan left out the role of other performance measures not included in the basic assessment framework. The most important of these was an industry's cash limit. In theory this was a constraint, not a target, but in practice the industries soon got the message that keeping within the cash limit was what the government wanted most.

It was then not clear what happened to the other measures if there was a cash squeeze. Thus projects could meet the 5 per cent RRR requirement, improve financial and non-financial performance, but nevertheless not go ahead because the cash limits were at a level which reflected government financing requirements. That the effects of such a squeeze on capital investment might be evident only after several years was not weighed heavily by the government.

The effect upon different enterprises greatly depended on their starting position. Those without financial strength, such as railways, were particularly vulnerable, as they saw it, to the government's short term financial policy. Those with such healthy cash flows as to lend, net, to the government were able to take avoiding action. Thus, Harrison (1984) reports of the electricity supply industry:

> If (that) industry had indeed hit the financial targets it was supposed to have been aiming at, it would have failed quite clearly to fall within its external financing limits. It very much looks, therefore, as though (the industry), in generating the profits required to repay its negative financing limit, had deliberately allowed itself to overshoot its financial target.

Reconciliation with a variety of measures which were not part of the framework was also not clear. One of these were the statutory obligations which the industries have to fulfill. Another was the targets which the industries have developed internally to measure their performance but which are quite separate from those agreed with the government. The page giving "highlights for the year" in the annual report and accounts usually indicates such internal priorities and it was not clear how these might be reconciled with the internal targets and whether policy choices would have to be made to do so.

Fifth, assessing appropriate circumstances for changing three to five year financial targets was difficult, as it is in all performance measurement systems, whether public or not. In the case of financial targets, it was never clear what the appropriate circumstances were for changing them. For example, would the target be adjusted if any industry consistently surpassed it or consistently failed to surpass it? And what circumstances (domestic recession, world trade recession, bad weather) meant that the industry had to adjust to the target or that the target had to be adjusted? This is obviously an important issue in the way in which an industry responded to changing circumstances. If the financial target had to be maintained at all costs, this might mean that major savings had to be made and that services might be cut with severe consequences for the consumer and perhaps for the economy. On the other hand, if it is to be flexible, it could be argued that discipline would be lost. In practice, the financial targets were rarely adjusted in order to take account of changed circumstances.

Finally, there was a lack of those effective sanctions which are necessary to make any control system work. This was not a problem which was new to the 1978 framework, but it nevertheless turned out to be of great importance. For most of the period under review, the chief sanction was implicitly more or less government cash. But it was never clear what would happen if industries failed to achieve what was expected of them, particularly since there were almost inevitably factors outside their control, due to trading conditions, government action, strikes in other industries, etc., which made it very difficult to establish whether failure to meet a given target was due to incompetence or not. It was hoped, perhaps, that a combination of unofficial sanctions, such as public pressure and corporate pride, would be sufficient to do the job. But, again, whether the government was able and willing to apply sanctions depended on the industries' several positions. Some were much more vulnerable than others. And both side were able to use the appeal to public opinion.

What Happened to the Control Mechanism?

As it turned out, there was little opportunity for the control framework to develop as intended. Within a year of the 1978 White Paper, a Conservative Government came to office with a commitment to break any monopoly powers enjoyed by state enterprises and to develop opportunities for selling off their businesses in whole and in part. Even more significantly, the government was pledged to reduce public expenditure, and at that time the nationalized industries were absorbing a great deal of cash. Some was for investment, some to fund lossmakers, but it soon became apparent that the government had more interest in lowering the industries' cash requirements than in making a system work in which cash was only a minor element of the control mechanism. In this, of course, the government was repeating, but with greater emphasis, the long-running concerns of most governments to give financial discipline pride of place.

The government also became painfully aware of the lack of sanctions in 1980-81 when an unexpected deterioration in the economy caused major losses in certain industries. There was serious overspending on nationalized industry financing in that year which threw the government off course in their plans to reduce public expenditure as a proportion of the GNP. As a result, they set up an inquiry by the Central Policy Review Staff into the relationships between the industries and the government. The review was never published, but leaks and action taken subsequently by the government to reinforce the control mechanism indicated that the conclusion of the report was that the 1978 White Paper mechanism was inadequate.

As a final bid to tighten the control mechanism from the financial viewpoint, the government has recently (1985) proposed legislation to "tidy up" a number of aspects of the existing framework for the industries. This proposal was originally precipitated by the embarrassment caused by the action of a number of airlines in taking a nationalized industry, the British Airports Authority, to court on the grounds that the government had no power to set the Authority a financial target. Although the case was eventually settled out of court, there was sufficient ambiguity left to spur the government to take action to ensure that the powers were available. An additional stimulus came from general complaints that there was considerable ambiguity about the legal aspects of the relationship between government and nationalized industries.

Much of the proposed legislation covers relatively technical matters, including borrowing and guarantees; accounts, reports and audit; financial targets (thus remedying the position after the British Airports Authority case); balance sheets; and formation of companies. In a less technical area, it is proposed that the provisions for the appointment of Board members should be tightened up, to allow appointments to be terminated in a way closer to private sector practice. This is perhaps an example of a positive answer to the question posed in Chapter 2 about whether more effective control implies revisiting issues of resource mobilization, for, as we saw, an important common element in this is the appointment of board members.

Yet within these apparently innocuous proposals, there are powers which the industries regard with considerable suspicion. For example, the passage "powers should be taken which would allow industries' balance sheets to be reconstructed. The powers... would allow all or part of the reserves to be capitalized as debt and public dividend capital" has been seen as a way in which the government can ensure that an industry does not try to retain its profits. There has also been concern that the government will use its powers on the appointment and dismissal of board members as a means of direct political intervention.

Remedial Action

Since 1978, a number of actions have been taken to bolster the control framework and reinforce the ability of the government to influence the industries.

Perhaps the most important element was the decision to set cash as the primary method of control. The use of profit and the other elements of the White Paper framework were downgraded, even though publicly there was still an emphasis on these other measures. But an industry's ability to remain within the cash constraints came to be regarded as an essential element in the maintenance of good relations between the government and an industry. In practice it did not prove possible to hold the line as completely as the government would have liked. There were a large number of revisions of the cash limits set and, in 1981-82, a continuation of the overspending. It also proved necessary to build in a mechanism for carrying forward expenditure from one year to the next on a limited scale after the industries had complained that it was managerially almost impossible to keep to a one-year time horizon for cash planning.

Pressure was also exerted in a number of ways to try to ensure an effective level of control and reduce the likelihood that there would be unexpected calls on government cash. External assessment was reinforced by the use of the Monopolies and Mergers Commission to conduct regular inquiries into various aspects of the industries' affairs. A further attempt to improve efficiency was through the introduction of performance aims -- productivity and other targets which were agreed upon by the industry and the government. The status of these aims in relation to the other targets was uncertain, but they were to be prominently displayed in the annual reports and therefore presumably carried greater weight than performance indicators.

At the top management level, there was a steady stream of appointments to industry chairmanships and boards of those who were sympathetic to the government's general aims. As time went on, the proportion of those who had been appointed directly by the government rose and the task of control became very much easier. In parallel, there was an attempt to improve the calibre of civil servants in departments by encouraging them to act more as financial controllers and less as administrators in the traditional Civil Service mode. The framework of control was also altered by the decision to introduce competition wherever possible. This was not only an ideological commitment, but was also certainly believed to be one of the only effective ways of curbing what the government believed were the almost inherent inefficiencies of certain industries. Again, the government's response to difficulties with operational controls involved redrawing the scope of the nationalized industry.

Thus, the government took action to remove some elements of the control problem altogether by selling off a variety of industries or their assets to the private sector. Such a programme was originally based on fulfilling political commitments, but the programme of privatization had the major additional attraction of raising large amounts of cash for the government at a time when it was searching for other ways to keep public borrowing down. The "removal" of the control problem was an additional bonus.

Could the Mechanism Have Succeeded?

Speculation about what might have been must inevitably be subject to a variety of interpretations based on the different weights given to the various factors involved. Nevertheless, in the case of the mechanism set up by the 1978 White Paper, it is possible to isolate a number of key factors which are worth considering as the elements of that judgement. In doing so, factors which need to be addressed in the operation of any control system -- the treatment of variances arising from unanticipated events, the flexibility built into the system, and so on -- are excluded.

The case for believing that the mechanism could have worked would need to be based on the assumption that, had the government not decided on other solutions, such a framework is technically achievable. There would have to be a set of agreed performance measures and a reconciliation between those measures which would have linked profit, cash and non-financial measures to the investment criteria. There would then have been a framework which would have been the basis of agreement between each nationalized industry and the government. Such a case would have to assume that the system could be made to work in certain circumstances.

The case against would be that the problems of operating such a system were too great for it to have worked even if the government had not, like all its predecessors, changed the rules. Such a case would cite a number of main problem areas, some related to the problems of the system, and some to the nature of the relationship between the government and the nationalized industries. The first problem area would be the mechanical problems of reconciling the different parts of the system. It is not clear that this could have been wholly successful. Some elements of potential inconsistency and conflict would have almost certainly remained. A second problem also would have been that any system involving multiple criteria involves difficult decisions about how to reconcile the relative importance of the criteria. Thus although the framework specified profit as the primary target, potential conflicts between achievement of this measure and achievement of all the others would have to be based on bargaining between the parties. The system itself could not effect a reconciliation, both because the information needed to settle reconciled targets in advance would not be available even in the best of worlds, and, more fundamentally, because the two sides' interests must diverge so long as an independent industry organization -- that is, one not part of government -- is maintained.

If bargaining is inevitable, the management of opinion-forming mechanisms is important to both sides. As we saw, a new feature of the 1978 changes was to emphasize this through the development of non-financial performance indicators. Appendix 1 considers how the seven U.K. organizations used their main means of communication, the annual report, to present their case about both kinds of indicators, financial and non-financial.

From this review, which covers the five years to 1984, considerable differences between the industries emerge. Clearly, the industries vary greatly in their relationship with the government, and the addition of non-financial performance variables emphasizes this. Those convinced of their own record of success (British Gas, CEGB, BP, Britoil) did not hesitate to say so. Others -- British Leyland, British Rail and BNOC -- were much more ambiguous in tone. For example, the appendix on financial targets considers four of the industries' presentations of their achievement of objectives in some detail. The reports convincingly showed that British Gas and CFGB were most successful; British Rail's reports display a great deal of fogginess and dispute the meaning of "break-even," the treatment of inflation and interest, etc. (Of the rest of the industries surveyed, BNOC achieved its profitability targets in 1979, but was failing to do so at the time of its dissolution in 1985. BL had no profit target during the period.)

Again, in terms of the most important element in finance from the government's point of view, the cash limit (EFL), British Gas most clearly performed as required; electricity somewhat less so, British Rail almost certainly did not. BL again had no explicit target, though it kept to the expenditures agreed to in its corporate plan. Only British Gas and CEGB were set performance aims, in their cases involving reductions in unit trading costs, which they met.

The annual reports contain many other performance criteria. The only industry explicitly to show performance against targets in these was CEGB; the others not only did not do so, but also changed their emphasis on what was highlighted from year to year.

Thus, there is little evidence that the development of information and performance available to outside bodies could usefully reinforce a government's attempts to run a more directed control system for the industries viewed as a whole. Those having less difficulty meeting their financial targets also were able and willing to present the best account of their activities in non-financial performance terms. This is not to say that external assessments had no influence.

The Monopolies and Mergers Commission (MMC) was the most active of the external assessing bodies following the Competition Act of 1980 which gave it the right to look at nationalized industries' behaviour, (but not at their financial targets, which were explicitly excluded by the Act.) These reports took on the character of advice from external consultants for managerial improvements, many of which were followed. Collins and Wharton (1984) put limited contribution of these MMC reports to control in this way: "The MMC has concentrated on more detailed procedures and operations which are relatively immune from interference," and so have not highlighted important issues such as ministerial intervention and a lack of clarity of objectives. Moreover, they assert "the attention given to the reports by MPs has been at best superficial."

As it turned out, in 1980-84, those industries having already considerable independence were able to reinforce it -- even to the extent of inventing new ways in which they could be judged, and by being highly selective about reporting when necessary. In the case of the worst-performing industry studied, British Rail, the reports are not only difficult to follow, but show evidence that obscurity in tracking performance was welcome to both the government and the industry. To judge from the U.K.'s experience, therefore, it is entirely possible that increasing the number of elements in monitoring might have lessened, rather than increased, the government's ability to influence performance.

Conclusions

In the relationship between the nationalized industries and the government, it must be unrealistic to expect bodies with quite different interests to operate a control framework which depends for its success on an ability and willingness to collaborate. The nationalized industries in the U.K. have long seen their own interests as the ability to run their own affairs on the basis of a reasonably long planning horizon, unfettered, as far as possible, by government intervention. From a government's viewpoint, on the other hand, although the reasons for industries being in the public sector have been diverse, government interests have usually involved some kind of intervention. These reasons have changed over time, as governments and their priorities have changed, but the need for intervention, often with short-term policy shifts, has not.

The last factor raises the question of how far clarity is, in any case, considered desirable by either party. The public stance of both is that the bargaining process should be in the open, so that the nature of the bargain is clear and so that outsiders can judge the results on the basis of what has been seen to be agreed. Yet there is undoubtedly a premium on ambiguity. It enables the government to keep its options open and the industries to use ambiguity as the cloak and alibi for any problems.

If both sides had wanted the process involved in the 1978 framework to succeed, solutions to the mechanical problems of control could presumably have been found. On this basis, the difference in interests and the nature of the process of control in a political context are the crucial factors. Taking into account the background of the attitudes of the industries, even if the present government had taken the same stance as its predecessors, it is likely that the differences would have been too great for the system to have worked. This does not mean that no control system of this kind could work, or indeed that, with a different climate in the attitudes of government and state enterprises, a system of multiple controls could not work. It is only to say that, without both industries and governments willing to make compromises by giving up some elements of their freedom of manoeuvre, a system of this kind is likely to be unworkable.

4 COMPARATIVE PERFORMANCE AND THE STRUCTURE OF CONTROLS

Introduction

This chapter considers how far it is useful to attempt to infer preferable systems of control from comparative performance of different countries' state enterprises. Such a comparison would have to be applied to similar activities - e.g., oil, gas, railways. This would mean not only identifying for each country's enterprises the relevant control mechanics in the manner described in Chapter 1, but would also require the setting up of suitable measures of performance. The detective work necessary firmly to establish the control mechanisms for a reasonable number of countries proved a difficult task. We succeeded in getting only very partial information in the time available, with the exception of railways, as explained in Chapter 1. So also for the task of setting up measures of performance. However, it seems worthwhile to review the endeavour, as far as it went, since the lessons to be learned might help a fuller attack on the problem; some tentative conclusions are possible.

What variables might be relevant in measuring the performance of enterprises? They must ultimately depend on what the set of arguments in a government's social welfare function are considered to be. Since no-one has yet been able to develop such a set for practical application, any investigator has to be content with nominating some plausible contenders for inclusion. Among them would certainly be economic performance variables. These describe the economic benefits and costs associated with the industry's activity - prices, service quality, investment and current outlays, etc. Perhaps the most comprehensive and satisfactory test of an industry's performance in these terms is to observe its success, or lack of it, in exporting to neutral markets relative to its competitors.

Thus, for example, one might examine the track record of market share in markets to which all rivals have equal access. The rivals, in this case, would be the state enterprises of different countries exporting to the same, foreign markets. Such a comparison can be made more or less plausibly, depending on how important transport costs to market are, how far importing countries eschew indirect discrimination, etc. Because there would be a focus on a particular industry, it would also be usual to standardize for nation-wide competitive variables.

Among the industries we have considered, oil and motor cars can reasonably be put in the category of industries with internationally traded goods and services. In the time and resources available, we could not carry through either a full matrix of controls for these industries or carry out the necessary statistical processes. The results which did appear are reported in this chapter.

Internationally Trading State Enterprises

We have some data on enterprise forms and control mechanisms[4] for five countries in oil, covering eight enterprises (the U.K., France, Germany, Italy, and Canada); and for four countries in auto (the U.K., France, Germany and Italy). Appendix 2 details this work.

From these, it is clear that the most common form is shareholding in private companies (8 to 12 enterprises). This indicates that the form of public enterprise tends to be adapted to reflect international competition. Indeed, in autos no state organization in the four countries held more than 51 per cent of the domestic production of autos in the field for which we have data (1971-79). Table 4 gives these data.

Another indication of adaptation of forms to market forces is the dual state interest in oil in France and the U.K. In the U.K., where indigenuous production is important, the division has been along lines of distingushing the control of government rights to explore oil (NBOC) as opposed to producing and refining. The particular current forms of state enterprises in the U.K. also reflect their movement towards an alternative adaptive form -- privatization.

Because autos are traded in a notably competitive international market, intimately involving enterprises in all these countries,

Table 4

State Companies' Share of Domestic Production of Passenger Cars, 1970-79; U.K., France, Italy, West Germany (1000 Units, Per Cent of Domestic Total

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979
U.K. (000 units)	789	887	916	876	739	605	688	651	612	504
BL per cent of domestic product	48	51	48	50	48	48	52	49	50	47
FRANCE (000 units)	1,056	1,069	1,050	1,101	1,174	1,042	1,218	1,259	1,241	1,404
RENAULT per cent of domestic product	43	40	39	38	43	41	41	41	40	44
ITALY (000 units)	108	123	141	205	208	190	201	201	219	208
ALFA ROMEO per cent of domestic product	6	7	8	11	13	14	14	14	15	14
WEST GERMANY (000 units)	1,518	1,622	1,373	1,364	1,170	1,050	1,221	1,278	1,346	1,304
VW per cent of domestic product	43	44	40	37	41	36	34	34	35	33

Source Adapted from E.I.U. Special Report.

our four countries general auto export experience may well be of interest. Oil, by contrast, though in latter years becoming far less dominated by large international producer interests, diverges far too much from a reasonable specification for country comparisons. One cannot with confidence assert either the absence of effective organizational impediments to international competition or the independence of each country's oil interests.

For autos we have, unfortunately, only national exports figures for the four countries, but for Part 1 the period (1970-79) Table 4's data supplement them. Table 5 shows the national auto export record for 1970 onwards.

These trends certainly indicate distinctions between the countries in their general ability to adapt in an increasingly hostile export environment. Germany clearly improved its performance, and France improved somewhat; Italy and the U.K. clearly declined, the U.K. dramatically. Relating the state-owned enterprises to their respective national totals of output, Table 4 showed the Italian state enterprise as a small (if growing) part of the Italian industry. The state enterprise's gains in market share were not mirrored by the industry's export performance. In Germany, growing export success was accompanied by declining state enterprise share of total production, as Table 4 indicates.

Table 5

Yearly Exports of New Cars, in '000s

	U.K.	FRANCE	WEST GERMANY	ITALY
1970	690	1,061	1,935	632
1971	721	1,149	2,156	640
1972	627	1,240	2,098	659
1973	599	1,340	2,204	656
1974	565	1,298	1,882	686
1975	516	1,233	1,500	661
1976	496	1,327	1,995	696
1977	475	1,430	2,201	644
1978	466	1,394	2,211	640
1979	410	1,535	2,283	647
1980	359	1,359	2,108	511
1981	349	1,245	2,197	425
1982	313	1,194	2,517	437
1983	274*	1,182*	2,527*	492*

* Figures shown in these tables are not completely comparable with those for previous years. These are taken from the monthly rather than the annual publication.

Source SMMT, Motor Industry of Great Britain, 1983, (Table 83, p. 232) and SMMT, Monthly Statistical Review, May 1984, (Table 9b, p. 13).

However, in these cases, the public enterprise element in the industry could be said to be small. We might more reasonably regard the U.K.-France contrast as a possible indication of substantial influence of the state enterprise. In each case the concern accounts for about 40-50 per cent of domestic output. The two were only very slightly differently organized, with a 100 per cent state shareholding as opposed to a somewhat lesser (95 per cent) stake for the U.K. Whatever the explanations for possible differences in export effectiveness, they do not lie in the formal constitutions, a confirmation of earlier findings. In looking at performance, we are limited to the earlier dates of our tables, because the U.K. recently decided on a partial denationalization of British Leyland's interests. Table 5 shows that between 1970 and about 1980, evidence is that the French industry performed markedly better than the British in export terms. But in looking for reasons for this, we have to note that there were considerable differences in how the government's stake was acquired, and in the application of controls. Appendix 1 reviews these differences.

The clear implication from the history set out in Appendix 1 is that the reasons for nationalization greatly affected the manner of control of the two enterprises. BL was already a failing concern when it was nationalized; Renault's nationalization owed nothing to economic misfortunes. From different starting points, there was only a limited amount, it seems, that control mechanisms could do to influence the outcomes. From the material also, we see how an initial position of dependence or independence from the government is reinforced by exposure to outside tests of success, in this case in the market.

However, there is a marked difference in the ways BL and Renault are subject to government controls. As Table 1 of Chapter 1 shows, these are very clear in the operations field. In no less than 8 of the 14 operational control mechanisms do they diverge. BL has no investment return targets or non-financial performance targets; under a contract these could be specified for Renault. The latter has, in contrast to BL, no specifically applied borrowing limits. BL's investment programme is subject to appraisal, while Renault is subject only to general conditions applying to regional investment. Monitoring procedures also differ. On the more important issues, these contrasts are those which would be expected if one compared two private sector subsidiaries of holding companies, where one (BL) is doing very badly, and the other (Renault) is not. The financial laggard is kept under close surveillance; the other is left on a looser rein, but has to be prepared to contribute to group needs. Thus, controls follow market realities.

An examination of the limited evidence indicates that governments regard their holdings in both autos and oil opportunistically, in the sense that they regard them as tools to be used to further non-economic aims, but tools to be used selectively and with due regard for the dangers of over-burdening the enterprise. Thus, as examples in oil, the French government's final powers of representation veto in CFP are more correctly characterized as the power to suspend; it sets CFP a percentage requirement of oil to be purchased from the national group; investment is occasionally directed in the interests of employment. The British government requires only part of orders for oil rigs to be placed with favoured suppliers. In Germany, the power to maintain employment exists, but must attract compensation if used; and in Italy, price control is exercised as intervention points governed by deviation from an average European price.

In autos, Renault has successfully resisted efforts by the government to persuade it to start a plant near Maiseilles; BL is given a financial target of improvement rather than a set goal, as in most other state enterprises; and in Germany, a ministerial reaction to an unwanted price increase by VW, when it was still wholly state owned, was indirect -- to reduce customs duties on foreign cars to increase competition. The usual quid pro quo for opportunistic intervention appears to be new investment funds; governments will provide non-equity finance.

Enterprises in Home Markets

In contrast to oil and autos, the rest of the industries we surveyed in Chapter 1 have very limited exposure to international competition. For them, tests of economic performance such as those in export performance, described earlier, are not feasible. Instead, proxies for economically oriented behaviour have to be used. We have the information on railway controls needed to make a comparison across countries, as we saw in Chapter 1.

Some work is also available bearing, but not in great depth, on comparative railway performance across the six European countries -- Netherlands, France, Sweden, Great Britain, Germany and Italy. Two recent reports seem relevant: BRB's joint study with Leeds University's Institute of Transport (1979) and Test for Transport 2000 (1984). As in the previous section, we present these in no sense as definitive tests, but rather as indications of possibilities. Inferences must, accordingly, also be tentative.

In using the measures at hand, we must place the most weight on those which record trends over time. Cross sections at a given piece of data are extremely difficult to interpret, principally because of variation in the way entry to rail markets is treated across countries (notably in regulating freight), and because of the many difficulties involved in standardizing prices of inputs, etc. At least some, but by no means all, of the difficulties are lessened in time series.

The trend items available from the 1979 study are two measures of labour productivity (train km performed per man) and a

Table 6

Some Comparative Railway Performance Indicators
Rank Order of Performance, "Best at Top of List"

Labour Productivity Change 1971-76		Change in Operating Costs	Trends in Financial Items	
Train Time Per Man	Traffic Units Per Man		Changes in Subsidy 1977-81	Changes in Losses 1977-81
SJ	SJ	SJ	SJ (largest decrease)	SNCF
SNCF	SNCF	FS	SNCF	NS
NS	BR	SNCF	NS	DB
BR	NS	DB	DB	FS
DB	DB	NS	FS	SJ
FS	FS	BR	BR (largest increase)	BR

Cost per Train km 1977	Profit/Loss per Train km 1977		Percentage of Freight Tonnes/kms on Railway
	Before Support	After Support	
NS	SJ	DB	SNCF (1981)
SJ	BR	BR	SJ (1980)
BR	NS	NS	DB (1980)
SNCF	DB	SJ	BR (1981)
DB	SNCF	SNCF	FS (1981)
FS	FS	FS	NS (1981)

Sources BRB with Leeds University Institute of Transport, *A Comparative Study of European Rail Performance*, December 1979. Test for Transport 2000: *BR: A European Railway*, Volumes 1 and 2, July 1984.

NS = Netherlands
SJ = Sweden
BR = Great Britain
SNCF = France
DB = Germany
FS = Italy

modified version, traffic units per man and trends in financial support. Changes in subsidy, operating cost, and losses are available from the 1984 report. Thus the most relevant measures concentrate on cost items. Changes in losses and subsidies provided are normally more a function of political change and general budget stringency than of the railways' own efforts (though one can always argue that railways, particularly in the short run, can strongly influence the financial deals they obtain). Various other comparisons at a given datum are available. They are included as collateral evidence.

Table 6 sets out the rank order of the systems as they emerge from these studies. Not every railway is completely represented.

The table exhibits some limited cost measures, and one measure indicating relative performance in the face of competition (the freight percentage for rail indicator). But freight has to be treated with great caution, as noted earlier. Great Britain and Sweden are the outstanding European examples of encouragement of free road competition. Moreover, freight model splits depend strongly on trip distance, among many other factors. In comparing countries, the relative geographical distances of major centres, in particular, inhibits a cross-section comparison at one date.

Nevertheless, there seems to be some indication of Swedish and, to a lesser extent, French superiority. Both the French and

Swedish railways appear to have drawn less on subsidy while showing productivity gains; also, for what it is worth, they attract a larger share of freight for tonne/km than the others.

Interestingly, while railway output cannot be subject to direct international tests, the output of railway manufacturers, of course, can, and railways have a large influence in this both as unified national buyers and direct participants via integration. A study on the railway as purchaser by Beesley and Jones (1979) considered relative export performance of suppliers in the U.K., France, Germany, Sweden, Canada and the U.S. This, among other things, employed the required standardization procedures to account for each countries' comparative advantages in engineering in general. Over the three types of products surveyed (freight wagons, passenger coaches, traction equipment) and among the European, Sweden and France showed clear superiority, and indeed a creditable overall showing among all the cases. Though the scale of the home railway purchaser is very different in each case, both railway systems had conducted their business with suppliers at home in a way markedly superior to say, that of the U.K. SJ was willing to purchase abroad, to encourage the best technology wherever it was found, as its relative commercial standing dictated. SCNF, for example, maintained its opinion to purchase from several domestic suppliers, and showed a willingness simultaneously to back different technological solutions to supply needs (Beesley and Jones, 1979).

France and Sweden, then, were cases of appropriate adaptations to market opportunities on the supply side, and, as we have also seen, gave some evidence of efficiency in output-related matters. Thus we might, then, look for ways in which their controls contrasted with those of the other European railways. Yet a reference back to Table 3 of Chapter 1 does not show particularly striking combinations of controls which Sweden and France share in contrast to the others. This seems to be true even if one eliminates obvious reasons why the two should differ, such as the purchasing and employment constraints which are applied.

The one outstanding characteristic of the Swedish situation is, as noted earlier, political stability over the total period considered and relative ease of consensus building. Thus it may be true that almost any arrangement of controls will permit rational economic behaviour by managers if left relatively unchanged over a considerable period. And in the case of Swedish railways, some basic adjustments in railway organisation were made long before other railways, such as British Rail, were forced to do the same through adversity. For example, in common with other of its state enterprises such as telecoms, a realistic view of the need to secure efficient suppliers to the Swedish state monopoly was taken many years ago. They were required to maintain arms-length supply relationships, thus encouraging them early to enter international markets to maintain desired rates of growth. British Rail has only in the last two years begun seriously to tackle the problem of creating similar arms-length relations with its principal supplier, British Rail Engineering, even though the latter was formally given a separate organizational status in 1968.

Conclusions

The attempt to argue from "success" to desirable control systems is very onerous, and the very limited evidence of this chapter is witness to this. From examining these three industries, whether the industry is subject to direct international pressures or not, the more successful enterprises measured in terms of economic performance reflect adaptations to market forces. Where these forces are direct, as in autos, governments adopt different kinds of operational controls; the variations depend most notably on the enterprise's financial standing. This is a function, not only of its own efforts, but also of its history. The limited evidence indicates that governments intervene in these competitive markets opportunistically, and are careful not to hamper the actions of the enterprises. Where there are not direct independent market forces, as in rail, the elements in the control mechanisms do not differ, but are operated in a different fashion. From the Swedish example, one might legitimately stress the need for any control system to have relative stability in the governmental/political environment to be effective. This echoes one of the implications of setting up control systems pointed out in Chapter 3.

This chapter has necessarily limited its view of "success" to one of the possible concerns of governments in judging industries' performance. The test of a control system from the government's viewpoint, in principle, consists of how far its objectives are followed by the state enterprise. This may well involve non-economic objectives. Financial success of the enterprise, as we have seen earlier, may help different objectives to be reconciled. But financial success may also enable the enterprise to be more independent and thus to make achievement of the government's objectives more difficult. Where the enterprise faces highly competitive markets, we have seen that governments tend to resolve the trade-off problem in favour of economic elements. They may have little alternative.

But in so far as government objectives incorporate inconsistent elements (e.g., export success and employment maintenance), success would be judged by how far the anticipated trade-off between them has in fact been achieved. There is no doubt that a thorough account of success in relation to government objectives must include much more analysis of target setting procedures and of actual performance outcomes than we have been able to undertake. Difficulties of access would face any investigator, and our limited excursion into this field does not lead to optimism about such endeavours.

5 BIBLIOGRAPHICAL MATERIAL

One of our objectives in embarking on the study was to assess how far the lines pursued here might go if further effort were devoted to them, and, by implication, the likely costs and benefits. The preliminary report of December 1984 included an outline of the inherent difficulties in locating material for a project of such broad scope as this one -- lack of primary sources, dependence on interpretative translations, etc. The compilation of this Final Report has regrettably only served to underline these problems and to heighten our acute awareness of both the shortcomings of the available material and the extent to which further work would be required to facilitate a more thorough-going analysis of the complex of relations examined in the preceding chapters.

The inevitable problem of data collection on other countries -- viz., availability of material in an accessible language -- has continued. Having surveyed the situation, it is possible to consider in the light of our conclusions whether further (or better) material would have (or could) prove useful. Appendix 3 gives the full bibliography.

As will have been noted, much of the foreign commentary focusses on the development or application of controls over operations. We have suggested that the most effective means of significantly influencing public enterprise conduct may lie in revisiting scope and/or resource mobilization. If so, the availability of commentary on such areas is important. The works in English tend to relate either to the economic arguments (e.g., pro/anti privatization) with little regard to the political environment (as when the issue is discussed in relation to West Germany and Sweden), or they are so country-specific as to necessitate an understanding of the particular system in which they operate (as with comments on the funding problems of IRI, ENI et al and proposals for their improvement, which are steeped in the uniquely Italian equity and banking sectors). In other words, to examine the likely effects of changes in the "upstream" section of our matrix would require far more material on their context either than was available or than we had time to consult.

The last comment also applies to the search for appropriate models within which to examine the success or failure of any of the range of controls identified. The shortcomings of the critical commentaries emanating from ill-conceived implicit models have been examined elsewhere and need not be repeated here. While it will be recognised that many of the writers laboured under similar conditions and faced similar problems to those encountered in compiling this report, nevertheless the lack of depth in a number of these works must be noted -- in consulting them, we were often left with the impression that a knowledge of the relevant statutes was superficial, and that any analysis presented was based upon rather vague notions of how the various systems functioned either in theory or in practice. Doubt is therefore cast on the utility of conclusions drawn in such works. A more thorough grounding in the political economy of each country is vital for comparisons to be pursued further.

Not surprisingly, those articles surveying the writer's own domestic scene were often those which revealed the most profound knowledge of the statutory and political environment in which what we have termed the bargaining process took place. However, while it proved possible to trace the path of this process in the case of the U.K., via an examination of successive government white papers and the reports of the enterprises themselves (as well as our own knowledge of the relevant political developments), attempting a similar analysis for other countries on the basis of similar material was simply not possible. The difficulty stemmed partly from the fact that the majority of the relevant annual reports were not available in English (unless in highly summarized form), and partly from the fact that it proved necessary to have prior knowledge of the government papers that needed to be consulted in order to consult them, i.e., facilities were not available to conduct a general search in order to ascertain which papers were relevant.[5]

Given that much of the most useful material is not available in English, it would appear that do to any further work in this field, the employment of translators would be necessary. (It is noticeable that the TEST Report had to resort to such measures with regard to railway reports.) An alternative could be direct consultation of, or commissioning contributions from some of the most influential individuals in the various countries, the method employed by the most successful surveys of a comparative nature (cf. Mazzolini [1979, 1980], British Railways Board [1979], Parris [1985], Keyser & Windle [1980]). Mazzolini, for example, conducted hundreds of interviews over two years as the basis for his work. This is of particular importance in the case of comparisons of industry performance for those industries which do not trade internationally. Unless one wishes to confine such an attempt at comparison to exporting industries, then industry-based comparisons impose the additional burden of understanding the technical side of operations, as well as the socio-political environment. Both the Leeds/BRB report and the Beesley and Jones report (1979), for example, resorted to the consultation/commission option outlined above. The level of commitment of time and energy necessary to produce such reports is indicated by the lack of any European-wide follow-up to the six-year old BRB report (the 1984 TEST report, though more recent, draws heavily on the 1979 work).[6]

Only by visiting the relevant countries, or at the very least commissioning specific reports from individuals therein and/or employing translators, can a study of this nature achieve more than this report has sought to do. It is possible that such a commitment would provide a reference work that could serve both to extend knowledge of other countries per se. It should not, that is to say, attempt to do much more on cross-country comparisons as such, but would enrich knowledge of controls themselves, which can then be applied and tested in a particular country where the context in which management will operate can be reasonably accurately defined.

6 IMPLICATIONS

In this concluding chapter, we draw our findings together and consider their implications for setting up particular systems of control in a given national context. That control systems must be "horses for courses" cannot, in our view, be doubted after examining the cross-country comparisons. The model of government industry relations must differ, both as to political and economic contexts. The generalizations which can be drawn point strongly in this direction, as a recap of our principal findings will show.

Our inquiries have proceeded from the view that governments wish to influence industries' behaviour. This requires recognition that controls exercised or proposed by governments bear in a systematic way on managements' choices. The controls, we argued, can range from those affecting the more fundamental issues of scope and resource mobilizations to those affecting operations. We set ourselves the task of defining controls in the several countries and classifying them accordingly. This proved possible, but time-consuming. The results are in Chapter 1, representing the finest evidence, namely for a cross section of industries for three European countries, and for seven countries including Canada with respect to railways. We found some support for our hypothesis of less agreement about operational devices than about the more important controls affecting basic matters such as the proper division between public and private spheres, the people constituting top management and its access to finance.

To the question that this prompted -- can performance be changed by attention to operational controls, without altering the rest? -- several conclusions emerged to suggest that the answer is "no." Particular forms of operational control have been advocated, some of the more prominent of which were reviewed in Chapter 2. All were subject to a cycle of hope, experience and disillusionment, irrespective of country. Clearly they were not adequate in themselves. We considered also a set of multiple controls in Chapter 3. These failed to serve their original purpose, partly because of the inherent problems of creating consistent and agreed objectives, and partly because the government concerned (the U.K.) indeed abandoned them in favour of altering their basic ownership and the competitive conditions they face.

We considered other ways of improving mechanisms. An attempted system of multiple controls for nationalized industries in the U.K. was, in effect, abandoned by an incoming government, but in any case posed formidable problems of consistency. The addition of non-financial measures of performance served, if anything, to sharpen the distinction between treatment of different nationalized industries by governments and to make a system of control for the application to each industry less feasible. A comparison of similar industries in different countries to investigate whether we could reasonably infer a superior set of control mechanisms from the results proved to be a necessarily limited exercise. So far as the evidence went, it supported the view that control systems follow market realities where these are imperative, as in internationally traded activity. Where enterprises are exempt from such processes, similar control systems can allow quite different behaviour in practice.

Apart from our reviews, we have concluded that there are fundamental problems in transfering mechanisms from one country to another. Thus, in discussing whether the "French system" or "British system" of controlling state enterprises is suitable, a view needs to be taken about the system as a whole. Entities such as public corporations exist within a set of social, political and economic structures particular to their "home" country. In Italy, for example, intervention by political parties is regarded as normal and legitimate. In France, the deliberate use of public enterprises to serve the wider needs of the country is accepted with few reservations. Political and economic boundaries are drawn differently in other countries and the assumptions about why public enterprises are in the public domain differ from one country to another.

Since there is invariably a degree of ambiguity about what these reasons are, problems frequently arise as a result of differing interpretation of these assumptions. Management claims rights to manage which are disputed by the government wishing to keep a tighter degree of control. Employees argue for priorities in maintaining employment or wage levels on the basis of the social role of the enterprises -- roles which are usually disputed by management and, often, by governments. Consumers assert rights which stem from their own assumptions about the way in which enterprises should operate "for the people."

In assessing the success of control machines, the nature of what constitutes success also needs to be considered, since there is no precise measure and often no external reference points to be able to make confident statements about success or failure. Those who make statements of this kind are usually the managements, the governments, opposition parties, employee representatives or outside commentators. Apart from the last group, each of the others is involved in a continual negotiating process which involves putting across a particular point of view. Furthermore, commentators often have a model in their mind which reflects their own view of how state enterprises should be run. In particular, there is a tendency for academic commentators to see a model of an explicit and rational relationship as the ideal, and any deviation from that model as a sign of failure. This may say a good deal about the viewpoint of the commentator, but not necessarily very much about the system.

The variations between countries in the reasons why enterprises are in state ownership mean that statements about the success or failure of the mechanisms which control state enterprises need to be taken in the context of the circumstances of each country. Interpretations must be related back to the national context to ensure that conclusions are drawn which reflect the important differences. For example, an attempt to transpose a system out of the context of the U.K. to Canada will be unlikely to succeed unless the country-specific factors can be isolated. We have found little evidence to suggest that this is possible.

Furthermore, there are informal mechanisms. Is there enough information available to be able to take these into account? The complex relationships between individuals and institutions in the bargaining procedures, which are an integral part of control mechanisms, may not be documented, indeed, may not be known about at all. There may be every incentive for the informal mechanism to remain out of the public eye so that it continues to function effectively.

The preceding paragraphs have illustrated the problems of standardization in transfering international experiences. These may be less important, however, than the problem of defining for a given country the context in which control mechanisms are to operate. It became very clear, in considering the development of multiple performance criteria in the U.K. in Chapter 3, that both sides of the government-state enterprise relationship did not see themselves in a clearly defined relationship of controls. Rather, their exchanges were part of a continuing bargaining process, in which outside reference points of public opinion, organized to various degrees, could be enlisted to support one's position. At times, external events can turn confrontations into collusion, and at all times they make the virtue of clarity of objectives in the relationship itself less than obvious. As we saw in Chapter 4, governments tend to be opportunistic in their interventions. They also trim their view of the objectives of control to the particular circumstances of the industry concerned, in particular the exposure to competition. This is not necessarily culpable; it may simply reflect a more realistic view of what must be a politically oriented process.

All this is not to deny that improvement in particular systems of control is possible. It most certainly can be. It is simply to urge that one has to start with a proposal for a particular change in controls and then to specify the appropriate model for the context in which the relation between government and enterprises in a particular country takes place, especially its political aspects. Mechanisms used for control in one country have the status of possible candidates for adoption in other. Whether they ought to be adopted must depend on the answer to the question: "if we adopted the idea in our system, how would it specifically be changed, and what would be the predicted results?"

But, above all, because there is always a situation of exchange between the enterprise and the government to be considered, in which either may gain or lose, and because both are subject to external forces, there is a need to establish a process of mutual learning rather than an attempt to impose solutions from the top. Ideas from other countries are then a useful coinage in the exchange between the parties.

APPENDIX 1

Inside and Outside Views of Performance

This appendix examines the annual report as a source of information on performance. Taking the seven organizations in the U.K. covered by the study, it contrasts the way they presented their own view of their performance in their annual reports in the five years to 1983-84 and compares it to the ways in which performance is measured in other parts of the annual report and to the comments of external commentators.

The summary of the organization's view of itself is most directly presented in the Chairman's forward to the annual report. For these organizations, as for most others in the public or private sectors, this statement provides a platform for major statements about performance from inside the organization, even if these are couched largely in public relations terms.

In terms of the message being conveyed, the organizations were of two categories. The first was those organizations which were convinced of their own record of success and did not hesitate to say so. The tone of British Gas is typical: "successful financially" (1979-80), "another successful year" (1980-81), "profitable, exhibiting a healthy cash flow" (1981-82), "year of business progress and achievement" (1982-83), "busy and successful year" (1983-84). The CEGB was also in this category. So too were two of the organisations with government shareholdings, BP and Britoil.

The second category was of those organizations which were unsure about whether their performance was satisfactory or not. These were BL, British Rail and BNOC. The Chairman's statements were much more ambiguous in tone, with the word "despite" prominent in many of the reports: "despite industry problems," "despite turbulent conditions," etc., in the case of BNOC, and labour disputes, economic circumstances and government restrictions in the case of British Rail. British Rail certainly provided the most paradoxical view of its own performance. The Chairman referred many times during the period to the successes and achievements of the industry while many of the facts quoted to support the case did precisely the reverse. For BL, the list of "despite" items included national labour disputes, inflation, the energy crisis, currency levels, interest rates, increased competition, the general trading environment and worldwide recession. But the overall message from the organizations in this category was very much that problems were due largely to factors outside the control of the management. In the case of British Rail, success therefore seems to have been judged against the baseline of what would have been the case had the management not taken appropriate action to avoid the adverse effects of factors outside their control.

From the annual report, a good deal of information is available to measure performance against:

1. statutory objectives
2. government targets

1. Statutory Objectives

The four nationalized industries studied had a statutory framework which set out objectives. These covered overall objectives and (except in the case of BNOC) provided a financial framework for the industries.

The overall objectives of the four industries were couched in varying degrees of imprecision.

> "The Corporation's principal duty is to develop and maintain an efficient, coordinated and economical system of gas supply for Great Britain and to satisfy, as far as it is economical to do so, all reasonable demands for gas in Great Britain (1972 Gas Act, for British Gas)."
>
> "It shall be the duty of the Railways Board...to provide railway services in Great Britain...and to provide such other services and facilities as appear to the Board to be expedient... (1962 Transport Act)."
>
> "...to develop and maintain an efficient, coordinated and economical system of electricity supply in bulk" (1972 Electricity Act) for the CEGB, and "to provide

> economic and secure supplies...and to take due care of the environment (1983 Energy Act)."
>
> "...through participation to secure and dispose of UKCS petroleum in a way which contributes to national security of supply, and ensure that the U.K. economy receives the maximum benefits from the Corporation's access to such petroleum (Oil and Gas Enterprise) Act of 1982, for BNOC)."

The interpretation of the words "efficient", "coordinated", "economical", "reasonable", "expedient", "due", "security" and "benefit" are of course very much a matter of judgement unless supported by more precise definitions. No doubt they were framed to give sufficient flexibility to provide for a variety of interpretations by governments, rather than as a serious basis for performance measurement. Not surprisingly, the industries, whenever they mentioned these overall objectives, indicated that they believed that they were meeting them.

The second area covered in the legislation was a financial target. Here there was more apparent precision with British Gas, British Railways and the CEGB each required, "taking one year with another," to ensure that "the combined revenues...are not less than sufficient to meet the total outgoings properly chargeable to revenue account." A significant variation in the case of British Gas was the rider "and to make such allocations to reserves as are considered adequate."

There is no question that two of the organizations, British Gas and the CEGB, met the financial target, whether adjusted for inflation under the current cost accounting convention or under the more traditional historic cost convention, and under all normal definitions of profit. As for British Rail, under the historic cost convention, before interest, there was a surplus of £100 million over the five years, to which might be added a further £50 million for extraordinary items. But once interest was taken into account, there were small surpluses in only two of the years and the overall deficit was about £200 million over the five year period. In inflation-adjusted terms there were deficits both before and after interest in each of the five years.

The British Rail example raises the issue of what is meant by the terms "break even" in a period of inflation and "properly chargeable to revenue account." The accountancy profession itself is divided about the appropriate adjustments to make for inflation, although it would seem that British Rail would not meet the statutory obligation under any of the available methods. The treatment of interest is even less clear, particularly since the capital structure of the industry has been a political rather than financial issue and much of the capital has in any case been written off over the years. However, the industry clearly believed that it was historic cost profit before interest that was the relevant measure.

2. Government Targets

a) Profitability Targets

The four nationalized industries were set financial targets by the government. For British Gas there were three financial targets in the period, one based on return on turnover and two on return on net assets. For the CEGB there were also three targets, all based on return on net assets. BNOC had two targets set, each related to a target profit figure. British Rail had no targets for the industry as a whole, though there were targets set for contributions from intercity passenger services and for freight. Finally, BL was set no profit target during the period.

The performance of British Gas and the CEGB was such that all these targets were met, apart from a shortfall in 1979-80 by the CEGB due to expectedly steep increases in raw material prices and lower demand. The annual reports of British Rail do not give enough information to make it clear whether the targets were met, but the circumstantial evidence from the failure to mention outturns indicates that they were almost certainly not. BNOC, having achieved its 1979 target, was on its way to failing to meet its second target when the dissolution of the Corporation was announced in 1985, though this occurred because the Corporation was thought to have outlived its usefulness, rather than because it had failed to meet any targets set.

b) Performance Aims

Only British Gas and the CEGB were set performance aims by the government. Each related to reductions in unit net trading costs. All targets were met, or were on the way to being met by the end of the period.

c) Cash Targets

The nationalized industries were set cash targets (external financing limits or EFLs) by the government each year, though the basis on which these targets were set, and therefore the amount of slack built into the targets, is unclear.

For British Gas, the record was that in four of the last five years the Corporation either spent less or repaid more than the EFL. The exception was 1979-80, when the initial EFL of minus £259m was increased to minus £449m. In the event, this target was missed by £2m. For the other years the outturn was within £10m of the limit, apart from 1982-83 when there was an outturn of minus £230m compared to a limit of minus £87m.

The position for the CEGB was less clear-cut. There was an EFL for the electricity supply industry (ESI) as a whole and the CEGB component is not clearly identified within it. The ESI kept to its ESL targets throughout the period, although the effect of the

EFL on keeping capital spending down was mentioned more than once by the CEGB during the period.

BNOC, because of the uncertainties surrounding capital expenditure phasing and oil prices, had cash targets, but not cash limits for three of the five years. The limits were overspent in both years but each time the vagaries of the oil market were undoubtedly the major factor behind the overspending.

The limits for British Rail were adjusted for two of the five years, once up from £750m to £790m and once down from £730m to £715m. There was also overspending in one year of £40m over the £920m limit. The adjustments can be seen as a reasonable way to respond to changing circumstances after the assumptions of an original plan have been shown to be unrealistic. Yet in the case of the overspending, the circumstances (industrial disputes in the industry) were the same as those which caused the upward revision. The question of whether this record was one of success depends on whether the view is that the limit was an absolute constraint, and that revisions and overspending were a mark of the failure to contain expenditure, or that adjustments and overspending of a relatively minor kind are justifiable. The management seemed to indicate that it thought the former to be the case, and that capital expenditure had been severely restricted accordingly. If so, then the British Rail record cannot be judged to be successful.

BL was not set an explicit target, though sums were made available each year through the Corporate Plan, which had to be approved by the government. It can be presumed that this acted as a target in practice and BL kept within the limits set during the period.

3. Other internal criteria

The annual reports contain a huge variety of performance criteria. In most cases these are unranked, although there is usually an attempt to isolate the major criteria in a summary page at the front of the report.

Performance against the previous year (often unadjusted for inflation) is the main method of assessing success and the main criteria are financial, especially sales, cost, working capital, capital expenditure and profit trends, cash flow, and major ratios such as return on investment. The organizations with private sector shareholdings used income per share as a major measure. Non-financial criteria such as productivity and numbers of consumers were used more by the nationalized industries. In addition, each of the organizations used criteria specific to their own type of operations, such as refinery capacity in the case of BP and demand for electricity met by the CEGB.

In total, the organizations had between 10 and 50 trend figures or ratios. Several also have a number of pages of statistics, though it is not clear whether these are supposed to be part of performance measurement or not. With the exception of the CEGB, there was no attempt to show performance against target and relative importance given to the measures is not consistent across the five years.

Use of the internal criteria is very difficult indeed in the assessment of performance, since the rules of the game are very much determined by the industries who can manipulate the figures, change the emphasis given to figures in successive years and concentrate on those aspects of performance which show them in a favourable light. In doing so, they do not have the checks of outsiders commenting on the way in which they should be judged and so, bearing in mind the public relations nature of the area, what is given must be treated with circumspection.

4. External Assessment

There are a variety of mechanisms for assessing the performance of organizations from the outside. Comparison with the performance of other, similar, organizations is the way in which performance can best be judged by outsiders.

Other methods of assessing by external bodies will depend on whether the industries are nationalized industries, and therefore subject to review by the government, or whether they are constituted as companies, responsible to the shareholders, of which the government is one. Nationalized industries are subject to a review by the Monopolies and Mergers Commission and by ad hoc government investigations. Companies are subject to in-depth scrutiny and comment from outside commentators, such as brokers and other industry analysts.

In practice these mechanisms do not add up to a systematic method of assessing outside performance. The Monopolies and Mergers Commission does not look at performance as such, but only at certain aspects of an organization's activities, and brokers are concerned only with certain aspects of performance, oriented very much towards the interests of the investor or prospective investor.

For the nationalized industries covered, only British Gas and the CEGB had detailed studies in the period. There was a Monopolies and Mergers Commission report on British Gas in 1980 and an efficiency review in 1983 by external consultants. The Corporation's initial reaction to the MMC report in the following annual report was to disagree with some of the recommendations, but two years later they admitted that action had also been taken as a result of the recommendations. As for the 1983 study, the

Corporation conceded immediately that some of the recommendations for improvement in efficiency had been accepted. The Monopolies and Mergers Commission's report on the CEGB was published in 1981. While the Commission found that there were a number of areas ripe for improvement -- demand forecasting, investment appraisal, fuel purchasing policy on fuel and "buy British" policy on equipment, they found that the overall level of efficiency was satisfactory. The CEGB indicated that they took action on the areas judged to be inadequate.

BNOC had no government investigation in the period, nor does the fact that the government has announced that it is winding the Corporation up necessarily mean that its performance was unsatisfactory, since the reasons given were to do with changing government perceptions about the role of BNOC and changes in the oil market.

BR was the subject of two reports in the period. There was a Monopolies and Mergers Commission report in 1980 on London and the South-East passenger services. This commended a number of aspects of the service (safety and service level) but was critical of many others, such as service performance, reliability, labour practices, efficiency and investment procedures. The second was the Serpell report of 1983, which was far more critical of efficiency and planning procedures and suggested radical measures to deal with them. Yet, interestingly, both these reports blamed outside factors for some part of the problem. In 1980 it was a deterioration of the asset base due in part to insufficient investment and in 1983 it was the failure of the government to define its objectives clearly enough.

The Companies

BL was in a different position from BP or Britoil during the period, having only a minute proportion of private shareholding and being heavily dependent on government cash. There were therefore no brokers comments, only those of motor industry commentators. Their criteria of success were primarily market share and future prospects for viability. Their attitudes towards BL in the period reveal growing optimism about viability, though in part this was due to the turnaround at Jaguar which was later sold off to the private sector. There were many favourable comments about the product range, particularly the success of the Metro, and the general improvements in design and marketing, as well as the negotiation of deals with Honda. These factors contributed to a shift from press hostility to some enthusiasm by the end of the period. There were also favourable comments arising from the fact that, in the Maestro, the company had the best-selling car in the U.K. in 1983, and Austin Rover's share of the home market overtook that of Ford in the same year. On the other hand, some commentators indicated that they thought that the company's recovery was fragile. Industrial troubles still loomed large by the end of the period and were partly responsible for a massive fall in output in early 1984. On what was deemed to be the crucial test of U.K. market share, that of BL fell from 19.5 per cent at the beginning of the period to 17.8 per cent at the end when the company was still ranked as small in Western Europe.

Commentary on Britoil was limited, since the company was only formed in 1982. Outside commentators concentrated on both the operating performance and the share price performance. The former was deemed in general to be reasonably successful. The company was judged to have a fairly successful exploration record, and to have achieved an improvement in its financial position. But its shares were considered unattractive. First, the privatization process was considered to be a failure, with underwriters left with three-quarters of the equity. Second, the profile of operations -- exposure to the North Sea and oil price movements and the lack of refining interests -- were out of favour with the market. Third, the government's share-holding was considered to be a distinct handicap. The prospects for the sale of this interest continued to overhand the market and the prospect that, even if this sale were effected, the government would retain its "golden share," which would effectively block foreign takeover, acted to damp investment enthusiasm. These factors "confirm the City's view of Britoil as a dull investment, devoid of the takeover speculation that buoys up most oil exploration stocks," according to one analyst.

BP was the subject of a great deal of comment by both brokers and journalists over the whole period, being one of the world's major oil companies. Their views again reflected interests in the underlying operations as well as the share price, but, unlike Britoil, they had a clear track record and were able to make international comparisons. The views of commentators on operations significantly altered between the beginning and end of the period, reflecting in part the changing fortunes of the oil industry as a whole and in part the improvements in management performance relative to other oil majors. Typical was a comment in 1981 which, while noting the company's fame for finding oil, highlighted its "mixed performance with what it does with the stuff." But by 1984, one of the brokers considered it to be "one of the best performing shares in the oil sector and to have faced the depression well, and maintained production income, a good cash flow, and to have out-achieved Shell in refining." Major factors affecting the shares otherwise had little to do with performance directly. These included considerations of the effect on the oil price if the government were to sell more its stake and the decision to increase the dividend in 1984.

5. Commentaries

Renault is well-known as the "exception to the rule" in France's framework for control of public enterprise. It is much freer in its investment programme -- the only major "établissement public" that does not in practice have to seek government approval of its plans; it was one of those not systematically examined by the CVCEP; it has been claimed that the government considers it in framing its general economic policy and leaves it free to expand into other countries; it does not have a Commissaire du gouvernement.

Dreyfuss, its chairman during its most successful years, claimed that he never received a directive from government and considered this to be essential if the company was to succeed (he wrote "La Liberté de réussir" as a statement of this case). Even where there are statutory controls (e.g., over acquisitions approval), they are considered by many not to be applied in practice.

However, Business Week's assessment (1982) of the company concluded that its independence was positively correlated with its ability to finance itself and that any diminution of its performance would thus have serious implications for its autonomy. Similarly, the article considered that much of the company's recent success could be attributed to its employment of many immigrants, thus reducing labour costs and the incidence of strikes. This, they considered, could not continue indefinitely or indefinitely with the same degree of compliance from the workers.

The company's success is also attributed by others to its development of new models (and, by the same token, their partial decline in the late 70s due to a lack of up-dating models), and their expansion into the American market via the acquisition of 40 per cent of the American Motor Corporation (AMC), i.e., actually producing in the country, rather than exporting.

Renault was expropriated by the State in 1945 from Louis Renault in retribution for his collaboration with the Nazis. The overall impression is that its public image[1] is much more attractive than Leyland's has been (although the latter's has considerably improved since the introduction of the Metro, Maestro et al.) and that it is subject to less direction from central government in terms of funding, location, etc. (though of course the two are probably related).

The problems at BL have been attributed to poor decisions by management in the past (though not since Sir Michael Edwarde's chairmanship, beginning in late 1977), lack of development of new/up-dated models, and industrial relations difficulties. The merger history of the Corporation has also been judged ill-considered, though recent re-organization seems to have eliminated the unhelpful situation of different elements of the company competing against each other (e.g., in the luxury end of the market). Renault had far fewer models, and concentrated heavily on one particular bracket, viz. small cars.

BL was formed much later, in 1968, as the result of a number of past mergers, the final one being that of Leyland with BMH (British Motor Holdings). The Ryder Report (1975) into the company's difficulties noted as one of the causes the fact that nearly all the profits had been distributed as dividends instead of being retained to finance new capital investment. Its precarious position by 1975 is witnessed by the report's statement that very large sums would be needed from external sources to finance the action required to make BL a viable business (the government had already had to guarantee finance in 1974).

The problems before the government takeover have been blamed partly on the results of the merger in 1968, which left the company with far too wide a range of models and far too many plants by European standards, partly on government policy on purchase tax, credit terms etc., which took little account of the effect on the domestic market for cars, and led to the industry seeking to supplement this with increased sales abroad on tight margins (though this was helped by "1967 devaluation"), and partly on poor industrial relations and productivity records. As Dunnett (1980) says: "In the years following the merger, few of these problems were rectified. The model range was not significantly reduced and few new models were developed... The overall impression...is that just as Morris had appeared to inject Austin with inefficiency after 1952, so did BMH similarly inject Leyland after 1968."

In 1970 BL shares began to decline seriously in value -- the company was faring badly in the increasingly competitive environment, and Heath's expansionary policies, coupled with Kennedy Round reductions of tariffs in 1971-72 greatly increased import penetration. The crunch for BL came in 1973: having undertaken a major £500m investment plan to modernize, it found itself facing recession and inflation following the OPEC oil crisis and the coalminers' strike. At this point, the government stepped in with its guarantee of BL's £50m overdraft and initiated the Ryder Report. Dunnett (1980), while pointing out the over-optimism of this report, notes that the government's saving Chrysler did not help.[2]

Notes - Appendix 1

1 Though not by all -- the Bonnefous Report of 1976 described Renault as "a kind of closed circuit, an enterprise living on itself without making any contribution to national costs and only emerging from this autarchy at times of difficulty to ask assistance from the state as shareholder." As Parris (1985) points out, their overseas activities indicate "the viability of 'public capitalism' but which may also reflect the laxity of the supervisory authorities... Occasionally a project will be turned down, but the Government exercises no real influence over company strategy."

2 "Whilst it is likely that if Chrysler (U.K.) had been liquidated many Chrysler (U.K.) dealers would have picked up import franchises and that import penetration would have increased, market shares of BL, Vauxhall and Ford would also have increased." -- "Chrysler simply put more pressure on an already hard-pressed BL."

APPENDIX 2

AUTOS

CONTROLS

	I. SCOPE					II. MOBILISATION OF RESOURCES						III. OPERATIONS													
						1.Man-Power	2.Finance					1.Performance Requirements			2. Limitations on Transactions							3.Monitoring			
	Territory Demarcation	Govt Approval of Acquisitions	Govt Approval of Disposals	Exemptions from Domestic Competition Law	Special Protection	Appointment of Board Members	Govt Provision of Equity	Govt Provision of Non-Equity, Non-Subsidy Finance	Govt Provision of Subsidy	Govt Guarantees for Non-Govt Finance	Govt Approval of Access to Non-Govt Finance	Financial Targets	Investment Return Targets	Non-Financial Performance Targets	Purchasing Constraints	Pricing Approval	Location Constraints	Employment Maintenance Constraints	Borrowing Limits	Govt Representative Veto	Approval of Investment Programme	External Auditors	Govt Representation Within the Organisation	Shareholders' Representation	Approval of Corporate Plan
	(i)	(ii)	(iii)	(iv)	(v)	(vi)	(vii)	(viii)	(ix)	(x)	(xi)	(xii)	(xiii)	(xiv)	(xv)	(xvi)	(xvii)	(xviii)	(xix)	(xx)	(xxi)	(xxii)	(xxiii)	(xxiv)	(xxv)
UNITED KINGDOM																									
BRITISH LEYLAND :	X	✓	✓	X	✓[1]	✓	✓	✓	X	✓	✓	✓[2]	X	X	X	X	✓	X	✓	X	✓	✓	X	[3]✓	✓
FRANCE																									
RENAULT :	**X**	✓[4]	✓	X	✓[1]	✓	X	✓	X	✓[5]	X	✓[6]	✓[6]	✓[6]	X	✓	✓[7]	✓	X[8]	X	X[9]	✓[10]	✓	X	✓[11]
GERMANY																									
VOLKSWAGEN :	X	**X**[12]	**X**[12]	X	✓[1]	✓	✓	**X**	X	**X**	X	**X**[12]	**X**[12]	**X**[12]	X	✓[21]	✓	**X**[12]	**X**[12]	**X**[12]	**X**[12]	X	✓	[3]✓	**X**[12]
ITALY																									
ALFA-ROMEO :	X	✓[13]	✓[13]	X[14]	✓[1]	X[15]	✓	✓	X	X[16]	X[17]	X	X	X	**X**	**X**	X[18]	X[19]	X	X	**X**[20]	✓	**X**	[3]✓	X

APPENDIX 2

Notes to Autos Matrix

Status of Enterprises

BRITISH LEYLAND - Public Limited Company, 95 per cent government shareholding.

RENAULT - Établissement public

VOLKSWAGEN - Private Limited Company, 40 per cent state shareholding (20 per cent federal government, 20 per cent lower saxony land).

ALFA-ROMEO - Societa Partecipazione Pubblica under Finmeccanica (IRI's mechanical holding company). Equity in Alfa-Romeo is owned 15.94 per cent by IRI directly, the remainder via Finmeccanica.

1 Import controls.

2 Expected to improve its financial performance, though not set a financial target in the sense that the nationalized industries are.

3 Assumed.

4 Though Parris (1985) records the view of the 9th Report from the Public Enterprise Accounts committee that the company had continued to create subsidiaries and to acquire holdings without the approval expressly required by law.

5 Re AMC takeover, the government made it clear that they would underwrite any losses -- seems to indicate an implicit state guarantee.

6 Could be set under "contrat."

7 Though the company has argued on a number of occasions, and actually refused when it was doing very well.

8 Though all issues of loans are controlled by the Ministry of Finance as part of its regulation of the capital market.

9 But an investment programme is developed with a particular concern for regional policy.

10 Cour des comptes.

11 At least, the corporate plan is submitted to government as a "shareholder."

12 It appears that the company is permitted to act in commercial fashion.

13 Although the control is basically over IRI, if an action will change the status of the company, permission must be sought from the government.

14 No indication in the Civil Code.

15 Appointed by IRI, not the government, though it would appear that IRI's "suggestion" is generally the government's choice. All other controls shown are those exerted by the government directly.

16 Not officially.

17 Can raise money through shares, but borrowing requires government approval.

18 IRI is required to devote a proportion of new investment to southern Italy (now 80 per cent). It would appear that Alfasud, the Alfa-Romeo plant near Naples, was part of this policy, i.e., although there may be little direct governmental control over the operating companies, policy towards the Enti affects them also.

19 Can be funded to keep workers on in a slump (applies to private enterprise as well).

20 Government "approval" of the Alfa-Nissan Deal was reported -- unclear as to whether this approval (to build a new plant) was permissive rather than expressive.

21 In the sense that if the government disapproves of price alterations, it will act, e.g., VW increased its price when it was still 100 per cent state-owned against the government's will. The Minister then reduced customs duties on foreign cars to increase competition.

APPENDIX 2

OIL

CONTROLS

	I. SCOPE					II. MOBILISATION OF RESOURCES						III. OPERATIONS													
						.Man-Power	2.Finance					1.Performance Requirements			2. Limitations on Transactions							3.Monitoring			
	Territory Demarcation (i)	Govt Approval of Acquisitions (ii)	Govt Approval of Disposals (iii)	Exemptions from Domestic Competition Law (iv)	Special Protection (v)	Appointment of Board Members (vi)	Govt Provision of Equity (vii)	Govt Provision of Non-Equity, Non-Subsidy Finance (viii)	Govt Provision of Subsidy (ix)	Govt Guarantees for Non-Govt Finance (x)	Govt Approval of Access to Non-Govt Finance (xi)	Financial Targets (xii)	Investment Return Targets (xiii)	Non-Financial Performance Targets (xiv)	Purchasing Constraints (xv)	Pricing Approval (xvi)	Location Constraints (xvii)	Employment Maintenance Constraints (xviii)	Borrowing Limits (xix)	Govt Representative Veto (xx)	Approval of Investment Programme (xxi)	External Auditors (xxii)	Govt Representation Within the Organisation (xxiii)	Shareholders' Representation (xxiv)	Approval of Corporate Plan (xxv)
UK																									
BNOC	✓[1]	✓	✓	✓	✓[2]	✓	✗	✓	✗	✓	✓	✓	✓	✗	✓	✓	✓	✗	✓[3]	✗	✓	✓	✓	✗	✓
Britoil	✗	✗	✗	✗	✗	✓[4]	✓	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✓	✓	✓[5]	✗
BP	✗	✗	✗	✗	✗	✓	✓	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✓[25]	✗	✓	✓	✓[5]	✗
FRANCE																									
SNEA	✓	✓	✓	✗	✓[6]	✓	✓	✓	✓[7]	✓	✗	✓[8]	✓[8]	✓[8]	✓[9]	✓	✓[10]	✓[10]	✗[11]	✓	✗	✓	✓	✓	✗
CFP	✗	✓	✓	✗	✓[6]	✓	✓	✗	✗	✗	✓	✗	✗	✓	✗	✓	✓	✗	✗	✓	✗	✓	✓	✓[5]	✗
GERMANY																									
VEBA	✗	✓	✓	✗	✗	✓[13]	✓	✓	✗	✗	✗	✗	✗	✗	✗		✗	✓	✗	✗	✗	✗	✓	✓	✗
ITALY																									
ENI	✓[14]	✓[15]	✓[15]	✗[16]	✓[2]	✓	✗	✓	✗	✓	✓	✗	✗	✓	✓	✓	✓	✓	✗	✗	✓[20]	✓[21]	✓	✗	✓[22]
CANADA																									
PetroCanada	✓	✓	✓	?	?	✓	✗	✓	✗	✓	✓	✗	✗	✗	✗	✓[23]	✗	✗	✓	✗	✓	✓[24]	✓	[illegible]	✓

Notes to Accompany Oil Matrix

Status of Enterprises

BNOC - Nationalized industry.

Britoil - Public Limited Company. 49 per cent government share-holding.

BP - Public Limited Company, 31.73 per cent.

SNEA - Société d'économie mixte with 67 per cent government shareholding via ERAP.?

CFP - Société d'économie mixte with 35 per cent government shareholding.

VEBA - Private company with a 44 per cent government shareholding.

ENI - Enti di Gestione and Ente Pubbliche Econimiche.

Petro-Canada - Crown Corporation.

1 Participation rights.

2 Licensing (exploration and production).

3 A target, rather than a limit, because of uncertainties of the oil market.

4 As long as government share remains above 20 per cent.

5 Assumed.

6 Licensing (importing and refining).

7 Intermittently (e.g., SNPA from 1950 to 1960).

8 Unclear, but seems these could be set under a "contrat."

9 Approval of purchasing commission necessary for all proposed contract above specified cash limits (though this applied more to ERAP than directly to SNEA).

10 According to Grayson (1981), the Le Nickel investment looked like pure employment maintenance, and it was directed.

11 Though all issues of loans are controlled by the Ministry of Finance as part of its regulation of the capital market.

12 "Devoir national" -- obliged to take a certain percentage of their crude supplies from the national group.

13 Via powers of appointment to the supervisory board.

14 Exclusive rights over Italian oil and gas deposits.

15 Minister of State Holdings has to approve.

16 No indication in the Civil Code.

17 Must locate 80 per cent of new investment in the Mezzogiorno.

18 Has been directed to purchase loss-making companies, but directives (other than on investment in the South) are not binding.

19 Prezzi sorvegliate (price surveillance) strict with regard to petrol. If prices vary form average European price by more than a certain amount, the government sets the price.

20 Prior examination by Parliamentary Committee.

21 Corti dei Conti (Court of Accounts).

22 Annual programme by CIPE (though examined by Minister of State Holdings from the technical/economic, financial and employment point of view). Long-term programmes by CIPI.

23 Can be set by an Act of Parliament.

24 Appointed by the Governor-in-Council.

25 Right is there, but not used to date.

APPENDIX 3

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Notes

1 Thus we have refined "scope" to differentiate entry controls of the type that mark off the territory as exclusively belonging to the public enterprise (which are included in "territory demarcation") and those which regulate or protect the public enterprise's field without entirely preventing entry of other firms ("special protection".)

We have also altered the finance section of "resource mobilization" -- it transpired that it was more revealing to distinguish government provision of loans/grants etc. from direct subsidies and equity than to consider whether non-equity finance came from the departmental budget directly or not. Thus this column has been eliminated, and "government provision of non-equity finance" has been sub-divided into "government provision of non-equity, non-subsidy finance" and "government provision of subsidy."

2 NEDO is the principal regular meeting place of government, employers (CBI) and unions (TUC). Its origin lay in the attempts at national economic planning in the 1960s. Its use has greatly fluctuated since.

3 Interministerial Committee for Economic Planning.

4 Direct discrimination is regarded as one of the controls a government may apply, as we have seen.

5 Ironically, those commentaries which gave publication details of some of the relevant papers were also those wherein their implications or interpretations were discussed, i.e., where conflicting interpretations of legal requirements were most explicitly recognized. An example was the case of the meaning of "economicita" as the criterion against which the Italian state holding companies should judge actions. Also, the importance of varying interpretations has been amply illustrated recently in the U.K. with the dispute over the Greater London Council's "Fare Fair" policy for the then London Transport. The legality of the Council's action in reducing fares hinged on the precise meaning of "economic" in the governing legislation.

6 Five years separate the two most comprehensive country-by-country surveys: Keyser and Windle (1980) and Parris (1985).

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